DOCUMENT RESUME

06859 - [B2367424]

U.S. Foreign Relations and Multinational Corporations: What's the Connection? PAD-78-58; B-172255. August 23, 1978. 62 pp. + 2 appendices (15 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: International Economic and Military Programs (600); Program Evaluation Systems (2600).
Contact: Program Analysis Div.
Budget Function: International Affairs: Foreign Information and Exchange Activities (153); International Affairs: Conduct of Foreign Affairs (152).
Organization Concerned: Department of State; Department of Commerce.
Congressional Relevance: House Committee on International Relations; Senate Committee on Foreign Relations; Congress.
Authority: Sherman Act of 1890 (15 U.S.C. 1). Clayton Act of 1914 (15 U.S.C. 18). Federal Trade Commission Act of 1914 (15 U.S.C. 41). Webb-Pomerene Act of 1918 (15 U.S.C. 61). Hickenlooper Amendment [of] 1962. Gonzales Amendments [of] 1972. Trading with the Enemy Act [of] 1917. Export Administration Act. Foreign Assistance Act [of] 1961. Trade Act [of] 1974. 15 U.S.C. 45(a). 50 U.S.C. 2401. 22 U.S.C. 283r. 22 U.S.C. 284j. 22 U.S.C. 2370(e). 19 U.S.C. 2101. 19 U.S.C. 2461.

Multinational corporations (MNCs) are defined by the United Nations as "enterprises which own or control production or service facilities outside the country in which they are based." They engage in many types of operations which have varying impacts and policy implications for the home and host governments. The legal existence of MNCs is derived from the laws of the home government, but the firms are also restricted by the laws of the nations in which they operate.
Findings/Conclusions: MNCs have been a source of conflict and cooperation in international affairs. The conflict often results from actual or perceived threats to national sovereignty. The impacts of MNCs on U.S. foreign relations are illustrated by the following: international tensions are sometimes created by the extraterritorial application of U.S. legislation; U.S. embassies furnish assistance to U.S. firms overseas, including diplomatic support; MNCs conduct direct negotiations with host country governments with or without official U.S. knowledge and approval; MNCs can promote international cooperation through regional economic integration, increased trade, and by bringing together firms and nations to promote their respective interests; they contribute to the formulation of foreign policy either directly or by influencing public opinion; they can enhance the economic strength and influence of both home and host nations; and U.S. security can be affected by the influence of host nations on the MNCs. Projections for the future are

that: MNCs will continue, investments will be more selective, problems will develop because of host country demands and U.S. regulation, there will be more collaboration between MNCs and host countries, international regulation will not be achieved, MNCs may contribute to gaps between developed and developing nations, there will be more host nations, and restrictions across borders will hamper operations. (HTW)

7424

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

U.S. Foreign Relations And Multinational Corporations: What's The Connection?

Multinational corporations have important impacts on international relations and are often greatly affected by changes in U.S. foreign policy. How these interactions occur is often misunderstood and the complex problems arising from them creates difficult policy problems for the United States.

In this report GAO develops a framework for analyzing these foreign relations impacts and uses this framework to give legislators and policymakers a comprehensive overview of the subject. GAO also predicts problems and issues that will become increasingly important to the Congress and the country in the future.

UNITED STATES GENERAL ACCOUNTING OFFICE

PAD-78-58

AUGUST 23, 1978

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-172255

To the President of the Senate and the
Speaker of the House of Representatives

This report analyzes the impact of U.S.-based multinational corporations on the conduct of our foreign relations and predicts some future issues which the Congress may face. We feel the report provides a concise, but comprehensive overview of this very important subject. Officials of the Department of State have reviewed the report and their comments have been incorporated in the final report.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), the Accounting and Auditing Act of 1950 (31 U.S.C. 67), and the Legislative Reorganization Act of 1970 as amended by title VII of the Congressional Budget Act of 1974 (31 U.S.C. 1154).

Copies of this report are being sent to the Director of the Office of Management and Budget and the Secretary of State.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

U.S. FOREIGN RELATIONS AND MULTINATIONAL CORPORATIONS: WHAT'S THE CONNECTION?

DIGEST

The significant and often controversial role multinationals now play in international affairs requires that policymakers better understand their motivations, operations, and impacts. Multinational corporations, as defined by the United Nations, "are enterprises which own or control production or service facilities outside the country in which they are based." Issues arising from their operations are sometimes addressed without adequate consideration of international implications.

For example, solutions to a domestic economic problem may be sought by reforming corporate taxes on foreign investments or imposing import quotas. However, such actions can have serious unintended impacts on other nations which can harm U.S. relations with them.

In this report GAO develops a framework for analyzing the impact that such governmental actions, and the independent actions of multinationals, can have on U.S. foreign relations. This framework, which systematically categorizes the connections between multinationals and U.S. foreign relations, is then used to evaluate the importance of past impacts and to provide a concise, but comprehensive, overview. GAO also describes some current trends to forecast issues that the Congress will face later.

The diversity of issues affected by the overseas operations of U.S.-based multinationals means that the Congress will always be considering related actions. Recent proposed and anticipated legislation affecting multinationals includes a proposal to revise the Fair Labor Standards Act to restrict importing goods not produced under acceptable labor standards, legislation on taxing overseas investment, and trade restrictions on countries that violate human rights.

All are likely to affect U.S. foreign relations through multinationals' operations. Often, a negative foreign relations impact of such legislation would be outweighed by other factors. But recognition that these impacts do exist, when multinationals are involved, improves the chances for effective and realistic policies.

MULTINATIONALS AND SOVEREIGNTY

Multinationals are a source of both conflict and cooperation in international affairs. Conflict is likely when multinationals seek home country support against host country restrictions and expropriations, or when the home country uses the multinational as a foreign policy instrument, either intentionally or unintentionally.

Conflict is inherent in some multinationals' operations, however, simply because of their perceived threat to national sovereignty and to the host nation's ability to control its own economy and development. Hosts often fear that the foreign firms have little understanding or concern for their local economy, labor conditions, and national security.

Attitudes toward the United States, especially in the Third World, are sometimes conditioned by perceptions of the adverse effects of U.S.-based multinationals. Such hostile feelings may be transferred to the United States in general, even when the U.S. Government has given the firm no diplomatic or other support.

The importance of multinationals in U.S. foreign relations is illustrated by the following activities.

U.S. POLICIES ARE OFTEN IMPLEMENTED ABROAD THROUGH MULTINATIONALS

The United States has extended its jurisdiction through extraterritorial application of domestic laws relating to antitrust, tax, national security, etc. The extraterritorial application of such legislation is not designed to use the firms as a foreign policy tool, but rather to prevent them from frustrating U.S. laws and regulations through their subsidiaries' activities abroad. A result, however, can be the creation of new international tensions.

For example, U.S. relations with Canada suffered during the 1960s when the United States prevented Canadian subsidiaries of U.S. firms from exporting cars and trucks to China and Cuba, despite Canadian support for such trade, and with France when the United States prevented the sale of defense-related computer systems to a French subsidiary. In other cases, however, U.S.-based corporations cooperate and comply with requests of U.S. Government officials, even in cases where there are no legal obligations.

Compared to nations like Japan, the U.S. Government exerts relatively little influence over its multinationals. Various factors greatly limit its ability to exert such influence, including governmental decentralization, diverse U.S. economic and international interests, host country nationalism, a historical separation between Government and business, and the desire to avoid foreign counterpressures through U.S.-based multinationals.

MULTINATIONALS EXPECT CERTAIN DIPLOMATIC ASSISTANCE

U.S. Embassies furnish a wide variety of market information and assistance to U.S. firms overseas. They also provide diplomatic support and protection, although only when absolutely necessary, if a confrontation threatens broader U.S. interests. Discrimination against U.S. companies and inadequate compensation for expropriated U.S. property have damaged relations with some nations.

THEY OFTEN ENGAGE IN INDEPENDENT ACTION

Multinationals conduct direct negotiations, often with political implications, with host country governments with or without official U.S. knowledge and approval. Like nation-states, many large multinationals conduct various economic and political assessments of actual and potential markets.

Multinationals have also used controversial tactics to influence the policies and decisions of some nations. The use of "questionable payments" or bribery to influence foreign officials has contributed to internal political crises in the governments of several U.S. allies.

Even though the U.S. Government plays no role in these activities, the perception that the firms are often used as tools of U.S. foreign policy means the U.S. Government will most likely bear a burden of guilt by association. Such activities, however infrequent, also tend to increase other firms' difficulties in dealing with host country governments by creating a climate for increased restrictions and nationalizations.

MULTINATIONAL ACTIVITIES CAN PROMOTE INTERNATIONAL COOPERATION

Multinationals support regional economic integration and economies of scale by serving as a vehicle for increased trade and by responding to new market opportunities. In the Third World, they often help build infrastructure and provide jobs which may promote long-term economic stability.

Finally, they have served as catalysts to bring together the firms and nations that recognize the need to establish some form of international regulation and standards of conduct to protect and promote their respective interests.

THEY CONTRIBUTE TO POLICY FORMULATION

Multinational corporations, individually and through trade associations, help formulate foreign policy through their capacity to help affect public opinion and to directly influence policymaking and legislation. Host countries sometimes benefit from the support of U.S. multinationals in the United States, although firms sometimes lobby against the host government's interests when it is to their benefit.

Multinationals have also been used, voluntarily and involuntarily, by various independent political, terrorist, and social action groups to support a specific objective. In Argentina and Italy, they have been the target of terrorists seeking publicity and funds through kidnapping and other violent acts. In the United States, they have been pressured to adopt policies to promote social welfare and equality in countries like South Africa, where human rights is an issue.

NATIONAL ECONOMIC INFLUENCE IS ENHANCED

Multinationals can enhance the economic strength and influence of both home and host nations. Some hosts have used their influence over resource-seeking firms to increase export prices for such commodities as oil and bauxite. For the lesser developed nations, they contribute technology, financing, technical and managerial skills, as well as international distribution networks, which can greatly accelerate economic and industrial growth.

On the other hand, the fact that it is home to many multinationals gives the United States a certain degree of economic power and a stronger voice in international economic decisionmaking. Multinationals also appear to increase exports through sales to their affiliates, thus reducing balance of payments deficits.

MULTINATIONALS AFFECT U.S. SECURITY

Negative impacts on U.S. security result less from decisions made by multinationals themselves than from the nationalism and demands of host nations exerting increasing influence over them.

The scope of operations of U.S.-based multinationals, however, sometimes creates doubts concerning their support for U.S. interests when they conflict with what seems best for the firm. Multinationals dominate many high-technology, capital-intensive industries with significant national defense importance. They are accused of exporting critical skills, but this impact has received little study.

Firms involved in extractive industries, however, can play an important role in decisions on raw materials' supply and price structure. They are also involved in international transfer of technology, sometimes, the critics charge, without adequately considering the consequences.

U.S.-based multinationals can also be viewed as a security asset. They may provide the United States access to raw materials not otherwise available, and they produce a wide variety of products with military value.

They have also shown an ability to advance the state of the art in technologies with a military application. Their central direction and organization also could be very important in any mobilization, and the United States increasingly receives technology transfer benefits from other nations through multinationals.

THEIR FUTURE ROLE

Recent developments and trends give some indication of the future evolution of multinationals:

--Multinationals are not in danger of extinction, although they will adapt to home and host government restrictions.

--Future foreign direct investment will be more selective, due to host government restrictions, taxes, increasing foreign labor costs, currency devaluations, and foreign political instability.

--Host country efforts to obtain greater benefits from multinationals will become more controversial, and will lead to more foreign policy problems if the U.S. Government and firms perceive discrimination.

--Recent activities by less-developed producer nations have significantly increased their bargaining position with multinationals. The result may be greater collaboration between the firms and their host governments. Closer identification with host country governments will mean that multinationals will become an even poorer conduit for U.S. foreign policy than they have been in the past, and it will be increasingly difficult for the United States to regulate these firms' operations.

--The U.S. role, as home country to most multinationals, will change. Japan, Europe, and even Third World nations will become the home government for an increasing number of firms. Thus, multinationals as a group will become less identified with the United States.

--It is unlikely that effective, mandatory international regulation of their activities will be achieved in the foreseeable future.

--New forms of U.S. extraterritorial legislation may create future foreign policy problems related to tax, environmental, consumer, labor, and human rights issues.

--Multinationals may indirectly contribute to increasing gaps between the developed and Third World nations because of the focus on the seas and offshore resource recovery. Only developed nations and large multinationals will have the financial and technical capabilities for such projects, and they will acquire most of the new wealth.

--Relations between U.S.-based multinationals and the U.S. Government are likely to get worse before they get better. Increasing demands from host governments and new proposals for U.S. regulation will frequently put corporations in a difficult position.

--Future restrictions on the flow of various kinds of information and communication across international borders will make it increasingly difficult for multinationals to operate and will present a serious economic challenge to the United States.

AGENCY COMMENTS

Department of State officials who reviewed the draft report generally concurred in its conclusions. Several minor suggestions they made for improving clarity and completeness have been incorporated.

Contents

ABBREVIATIONS

GAO	General Accounting Office
MNC	multinational corporation
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation
UN	United Nations

LIST OF FIGURES

CHAPTER 1

THE FOREIGN INVESTMENT ENVIRONMENT:

A BACKGROUND APPRAISAL

SCOPE OF REVIEW

The actions of U.S.-based multinational corporations (MNCs) and the way in which those actions are perceived abroad can greatly affect U.S. diplomacy. To understand that impact, this review describes multinational corporations; examines how the operations of U.S.-based multinational corporations affect the conduct of U.S. foreign relations; and forecasts some future issues which the Congress and the Nation will probably face as multinational corporations continue to evolve. It also contains general background information on the development and operations of multinational corporations within the contemporary international system. The review seeks to establish a framework for understanding, analysis, and evaluation of how various types of U.S. legislation and policies can have an impact on U.S. foreign relations through their application to U.S.-based MNCs. The report also provides a framework for evaluating how MNC activities can independently affect U.S. foreign relations in ways which should be recognized by policymakers and legislators in carrying out their administrative, review, and oversight responsibilities for U.S. foreign policy.

In preparing this report, we reviewed and synthesized a large volume of the literature currently available on multinational corporations. In addition, we held discussions with knowledgable individuals in Government, business, and the academic community. We did not attempt to systematically examine all issues, nor discuss any issue in exhaustive detail. Instead, the method was to identify and explain the most important interrelationships between multinationals and U.S. foreign policy, and to discuss those issues which seem most relevant to policy considerations. We have challenged certain prevalent perceptions regarding multinationals and, hopefully, improved the environment for understanding them by providing a useful analytical framework.

HOW MULTINATIONAL CORPORATIONS OPERATE

There is no standard, widely accepted definition of MNCs. The accuracy of the term itself is often disputed by those who favor such terms as multinational firm or transnational enterprise. Multinational corporations should not be confused with essentially domestic companies that merely export to a foreign market. All large corporations are not necessarily multinational. Likewise, not all MNCs are large. The operational definition of multinational corporations used in this report is general and coincides closely to that used by the United Nations (UN),

> "* * * enterprises which own or control production or service facilities outside the country in which they are based. Such enterprises are not always incorporated or private; they can also be cooperatives or state-owned entities." 1/

Multinationals are by no means a homogeneous form of business organization. It is necessary, therefore, to distinguish among the various types of operations in which they engage. (See fig. 1.) In the past, these distinctions often have not been made and the result has led to much of the confusion which currently exists concerning MNCs. Since some MNCs engage in more than one kind of activity, however, it is difficult to categorize any given company. 2/

1/United Nations, The Impact of Multinational Corporations on Development and on International Relations, New York, p. 25.

2/Jack N. Behrman, former Assistant Secretary of Commerce (1961-2, International Affairs; 1962-4, International Business), and currently Professor of International Business at the University of North Carolina, distinguishes these three types of transnational enterprises. This report uses Dr. Behrman's division as a framework for analysis.

FIGURE 1

CHARACTERISTICS OF MULTINATIONAL CORPORATIONS

Characteristics / Types	Resource seeker	Market seeker	Efficiency seeker
Primary home countries	U.S., Europe, Japan	U.S., Europe, Japan	U.S., Europe
Primary production location	home/host country	host country	home/host country (worldwide)
Primary sales market	home country	host country	worldwide
Regions of primary activity	All regions	All regions	North America, Europe
Type of Business	• raw material extractors • manufacturing branch plants seeking cheap labor	• service companies (e.g. airlines, hotels) • banks • retail firms • manufacturers	• high technology firms • manufacturers operating on economies of scale in production and marketing
Objectives (seeks)	natural resources and inexpensive labor	national markets	efficiency and optimum use of assets
Degree of centralization/integration of operations among all affiliates	little centralization or integration	very little centralization or integration	highly centralized and integrated
Influence on host governments	• little (for scarce raw material seekers) • considerable (for labor seekers)	some (due to greater local control)	considerable (due to flexibility and technology)
Visibility in host country	high (due to size, sectors of activity, and home country orientation)	low (due to greater local control)	high (due to size, sectors of activity, and methods of operation)
Legitimacy as perceived by host country	little (due to home country orientation and sector of operations)	substantial (due to greater local control)	Little to substantial (depending on benefits to host)

One type may be defined as the resource seeker. It is usually oriented to the parent country only, and goes abroad for raw materials or labor which are either unavailable or much more expensive at home. For example, petroleum and mining companies invest abroad for natural resource extraction. Resource seekers that go abroad primarily for labor include the component manufacturing firms which produce various products for sale, usually in the parent country, and often directly to the home company of which it is a subsidiary. Such components are often only an intermediate product or process and can be manufactured in any location where labor is inexpensive and readily available. Examples of this type of activity are the textile industry and the manufacture of semiconductors for the U.S. electronics industry.

A second type of multinational is the market seeker, which may be viewed as being similar to an international holding company. This type acts primarily to supply a local market with goods produced by a subsidiary within that country. Often such a company is not able to effectively serve the target market from outside. In other cases, the host government's investment regulations may require local production to acquire certain technological or industrial capacities from the MNC. Automobile manufacturers, for example, have operated primarily as market seekers in Brazil and Mexico for this reason.

The market seeker may receive some direction from the parent company, but it is not closely integrated with other subsidiaries in other nations into a cohesive network of worldwide operations tightly controlled by the parent. Since there is relatively little centralization, the market seeker, as a local subsidiary, often has substantial autonomy in dealings with the host government.

Finally, there is the efficiency seeker. It invests in resources, manufacturing, or technology for sale in a local market, but seeks to serve other world markets from its various foreign affiliates. Its operations and loyalties are not tied exclusively to any given home or host nation. All activities of the efficiency seeker are integrated to the greatest possible extent. They tend to be centralized and are directed largely from the home office as part of a common strategy to reduce costs and, thus, more efficiently compete in the international market.

Efficiency seekers are generally found in sectors of activity with high technology, low transportation costs, standardized products, economies of scale in production and marketing, and low barriers to trade and finance. Their centralization and scope of operations help them identify the most efficient means of worldwide production and distribution, and to allocate their resources accordingly. Efficiency seekers are considered to be the most advanced form of multinational organization.

Each firm, whether acting as a resource seeker, a market seeker, or an efficiency seeker, is organized and operates differently. A single company, however, can act in all of these roles, under different circumstances, in pursuing business opportunities. For example, an automobile manufacturer may operate as a market seeker in Brazil because of Brazilian restrictions requiring local production. Another subsidiary of the same auto manufacturer might operate in Europe as part of an efficiency-seeking complex, with different components manufactured in several countries in which the autos are eventually assembled and marketed. This can be done because of European Common Market cooperation which allows each component to be manufactured in large economic quantities and shipped to assembly plants close to the point of sale, thus giving each country what appears to be a domestic auto industry. The same company operating in the United States might also act as a resource seeker by producing iron and steel, and by performing other operations offshore to reduce labor costs. It would then reimport the part assembled abroad to the United States for inclusion in an automobile that is primarily marketed domestically. Figure 2 shows another example.

These distinctions, although not always precise, are important for policy purposes. (See fig. 1.) The resource seeker, the market seeker, and the efficiency seeker can have different impacts, power relationships, and policy implications for both home and host governments. For example, efficiency seekers have considerable power <u>vis-a-vis</u> host governments because of their financial and other resources, their technologically oriented products which the host desires, and their ability to shift operations relatively easily because of their centralized management and worldwide markets. Market seekers, because of their local orientation, also have considerable negotiating strength with host governments but less than efficiency seekers. Resource seekers extracting scarce natural resources have the least negotiating strength because they cannot easily shift operations. However, resource seekers which have invested in inexpensive labor have considerably more negotiating strength.

Regarding profile or image, the resource and efficiency seekers are highly visible because of their "foreignness" and their size and scale of operations in key sectors. Market seekers generally have lower visibility because they manufacture locally for a national market, are relatively autonomous from the home company, and usually have many local managers. As a result, host nations perceive the market seekers to have the greatest degree of legitimacy. Efficiency seekers, on the other hand, are accorded less legitimacy because of their foreign control and worldwide orientation. Resource seekers are often viewed as a colonial type of investment, in which host country's labor and raw materials are exploited. Thus, resource seekers are perceived as the most illegitimate of the three types of MNCs and are, therefore, more subject to nationalization.

Most multinationals are incorporated in a State of the United States, a European nation, or Japan. The MNCs that do operate from home countries in the developing world are concentrated in a few nations like Brazil and Mexico. Resource and market seekers' operations are found worldwide, while efficiency seekers operate primarily in North America and Europe. U.S.- and European-based multinationals represent all three types; however, most Japanese MNCs operate outside Japan as either resource or market seekers.

Although a firm's activities and scope of operations may be multinational, its legal existence is derived from a particular nation's laws. However, it is also restricted by the laws of the host nations in which it operates. As a result, MNCs frequently find themselves having to respond simultaneously to several nations' interests and laws.

Just as there are important differences among the U.S.-based multinationals and the types of functions they perform, there are also significant differences between U.S.-based MNCs and those with headquarters in Europe or Japan. Those differences also affect their foreign policy

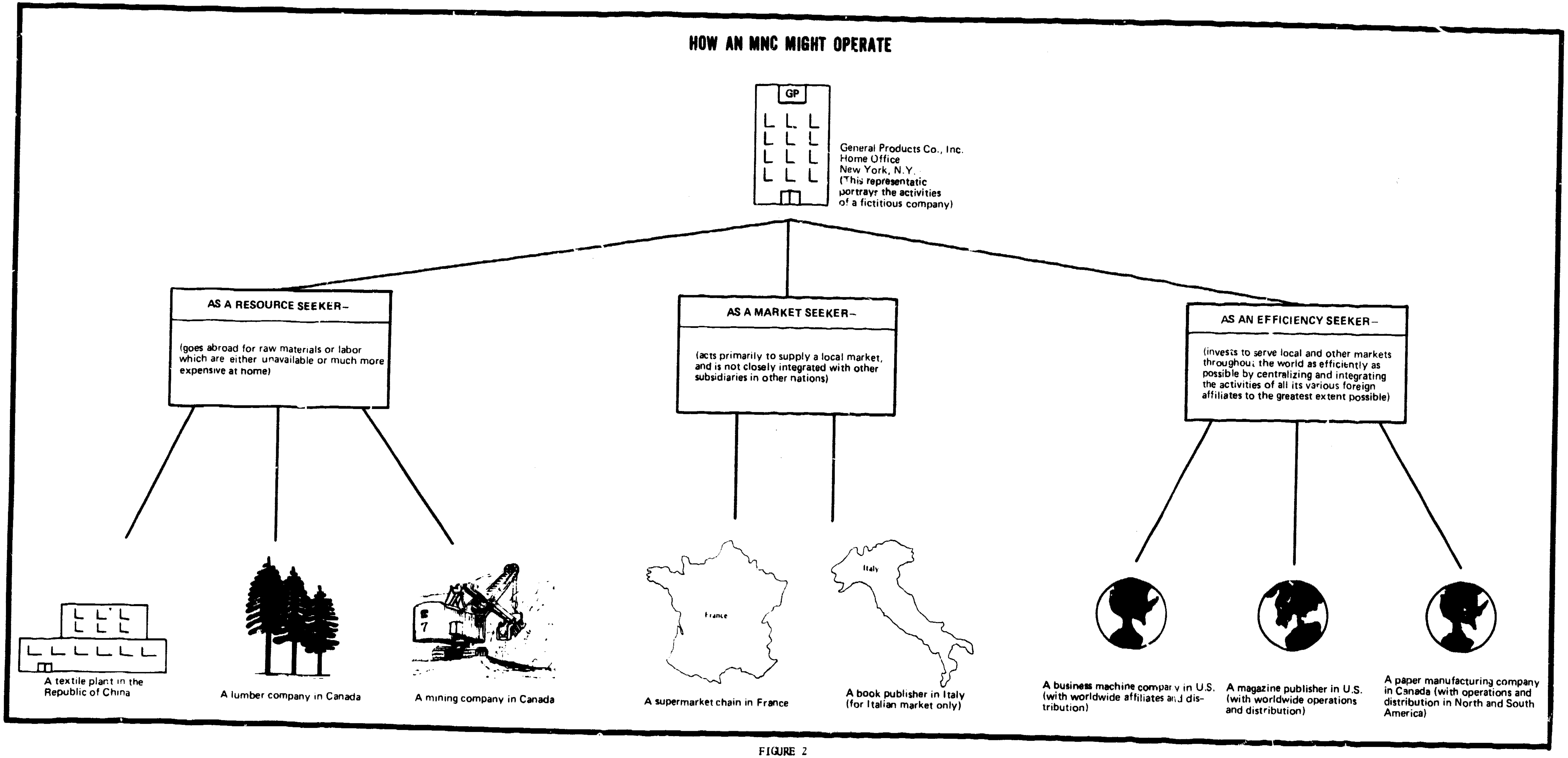
HOW AN MNC MIGHT OPERATE
GP
General Products Co., Inc.
Home Office
New York, N.Y.
(This representatic
portrays the activities
of a fictitious company)
AS A RESOURCE SEEKER–
(goes abroad for raw materials or labor which are either unavailable or much more expensive at home)
AS A MARKET SEEKER–
(acts primarily to supply a local market, and is not closely integrated with other subsidiaries in other nations)
AS AN EFFICIENCY SEEKER–
(invests to serve local and other markets throughout the world as efficiently as possible by centralizing and integrating the activities of all its various foreign affiliates to the greatest extent possible)
7
France
Italy
A textile plant in the Republic of China
A lumber company in Canada
A mining company in Canada
A supermarket chain in France
A book publisher in Italy (for Italian market only)
A business machine company in U.S. (with worldwide affiliates and distribution)
A magazine publisher in U.S. (with worldwide operations and distribution)
A paper manufacturing company in Canada (with operations and distribution in North and South America)

FIGURE 2

impact. For example, according to a recent Conference Board survey, U.S.-based multinationals are more centralized and profit-oriented than those headquartered in Europe. They are less willing to enter joint ventures with the host country and adapt to foreign environments and requirements; also, their management philosophy emphasizing success and flexibility is often viewed as a lack of conscience or responsibility. 1/ According to the report, "the attitudes of indigenous leaders in countries like Nigeria and Brazil are clearly less favorable to U.S. executives than they are to their European counterparts." 2/ This implies a negative effect on U.S. national prestige and influence on a particular country's elites.

WHAT MOTIVATES FOREIGN INVESTMENT

Foreign direct investment by multinational corporations occurs for many reasons, all related directly or indirectly to optimizing profit. According to a recent Commerce study, these reasons include:

> "(1) a need to get behind tariff walls to safeguard a company's export markets; (2) greater efficiency and responsiveness by producing in the local market instead of exporting to it; (3) the possibility of lower production costs which make it cheaper to produce components abroad; (4) the fear that competitors going abroad may capture a lucrative foreign market or may, by acquiring cheaper sources of supply, threaten the company's domestic market position; (5) a need to diversify product lines to avoid fluctuations in earnings; (6) a desire to assist licensees abroad who may need capital to expand operations; and (7) a desire to avoid home country regulations." 3/

1/Stephen Blank and Joseph LaPalombara, Multinational Corporations in Comparative Perspective (New York: The Conference Board, 1977), pp. ix-xiv, 58.

2/Ibid, p. x.

3/U.S. Department of Commerce, Bureau of International Commerce, Policy Aspects of Foreign Investment by U.S. Multinational Corporations, Washington, D.C., January 1972, p. 14.

Other factors which affect investment decisions include the state of the U.S. economy and content of U.S. economic policy, and the receptivity for foreign investment in the host country (including restrictions, incentives, and the availability and quality of financing). Flexible operations are sought wherever possible, as well as host-country political and economic stability.

Recent trends and developments which have accelerated U.S. foreign investment and the growth of multinational corporations, especially efficiency seekers, include:

--The increased international support for freer trade exemplified by the General Agreement on Tariffs and Trade negotiations to reduce tariff barriers in world commerce.

--The need for larger markets to offset high research and development costs.

--The rapid growth and international transfer of technology, which has created new demands and opened up new areas for international investment.

--Improvements in all forms of international communications, from travel to advertising, including the growth and development of computers and other forms of management information and data processing systems to facilitate central direction and control.

--The development of international banking operations to finance and service foreign investments, and greater currency convertibility with the development of transnational money markets (e.g., Eurodollars) which allow MNCs to deal more easily with national currencies.

--Increased international commercial sophistication and the creation of new markets.

--The support of substantial financing by Government in many science and technology areas, and the need to maintain a strong defense, which has sustained many technological developments and international transfers (through coproduction arrangements and foreign military sales).

--The willingness of governments to surrender a degree of sovereignty to such international organizations as the European Economic Community in an effort to promote economic cooperation and development.

--The development of such Government incentive programs to encourage and insure foreign direct investment, as the Overseas Private Investment Corporation (OPIC) in the United States.

--The acceptance of reciprocity among nations in protecting international patents and trademarks.

HOW U.S.-BASED MNCs DEVELOPED

Although the rapid overseas expansion of U.S. multinational firms did not occur until after World War II, their roots can be traced back to shortly before the Civil War. The Singer Sewing Machine Company's first foreign factory was opened in 1867. By World War I, several U.S. companies such as General Electric, Standard Oil, and National Cash Register had overseas operations.

The United States emerged from World War II with its economy strong, a greatly expanded production base geared to meet wartime needs, and a better understanding of the world market. U.S. firms and financial institutions possessed much of the available international capital and advanced technical and managerial skills. Developing a large, unified U.S. market had supported the growth of business on a scale required for new overseas expansion. Thus, U.S.-based corporations possessed advantages which led to their present dominance of international business. More large MNCs are still headquartered in the United States than in any other nation.

Unlike the earlier colonial European trading companies, the U.S.-based MNCs' role has not generally been to govern and expand national influence, prestige, and power while performing their primary commercial and trading activities. The mistaken analogy to such firms as the Dutch East India Company is partly responsible for much confusion about the organization and activities of the U.S.-based multinationals. National prestige and influence may be affected by their activities, but usually only as the unintended side effect of businessmen's efforts to compete in a given market and earn a profit. However, in pursuing profit it has been impossible for U.S.-based MNCs to always avoid political activities.

NATIONAL SOVEREIGNTY: HOST COUNTRY INTERPRETATIONS OF THE ISSUE

The issue of national sovereignty is an important key to understanding the international debate over multinationals. A perception still seems to exist in many developed and developing nations that multinational firms pose a genuine threat to their exercise of complete national sovereignty, but a recent Conference Board study in both developed and developing countries found, "feelings of dependence--not on the multinationals as such but on the nation-states from which they emanate." 1/ This frequent inability to distinguish between the MNC and its home government makes the issue political and much more complex.

The rise of nationalism around the world has coincided with the growth of economic interdependence and the development of the modern multinational enterprise. Nationalism has increased governments' role and responsibilities, vis-a-vis multinational corporations, and it has nurtured suspicions and hostility toward foreign influence. The suspicions of host governments generally relate to fears of foreign influence and losing control over their own economies. Since decisions relating to companies' activities are frequently made abroad by foreign nationals, the company's interests may, at times, differ from the host nation's interests and policies. The suspicion exists that those decisionmakers have little understanding or concern for the local economy, labor conditions, and national security requirements. This is a particularly sensitive concern with U.S.-based multinationals because of the relatively rapid turnover of American managers in overseas assignments. 2/

1/Stephen Blank and Joseph LaPalombara, Multinational Corporations in Comparative Perspective (New York: The Conference Board, 1977), p. viii.

2/Ibid, p. xii.

DEVELOPED NATIONS AS HOSTS

U.S. direct investment in developed nations tends to be concentrated in Canada and Western Europe. (See fig. 3.) Most of that investment is in manufacturing and the more technically advanced industries such as chemicals, transportation, metals, machinery, and electrical equipment. Although specific companies rarely exert a dominating influence on these advanced economies, as they have sometimes done in less-developed nations (e.g., Firestone in Liberia or United Fruit in Central America), the developed nations often express fears that the large U.S.-based multinationals, as a group, contribute to their dependence on the United States. There is concern that their local industry may operate at a disadvantage because of an inability to compete with the capital, resources, and technology of the large U.S.-based MNCs. A fear also exists that this investment in high-technology industries, often with strategic significance, will lead to restricting their national freedom of action and the government's ability to carry out the nation's economic plans and objectives.

Foreign ownership and economic domination by U.S.-based MNCs is a particularly sensitive issue in Canada, for example. Canada has adopted strict regulations which permit new foreign direct investment only when it brings "significant benefit" to the nation. 1/ The European Economic Community has been unable to develop such a policy on foreign direct investment for its members because of widely varying attitudes on the issue. 2/ Certain members, such as France, have intervened to prevent U.S. MNCs from penetrating certain advanced technology fields. Even in the United Kingdom, a host to significant U.S. investment, concern has been expressed over foreign control of its economic policy.

1/The determination of "significant benefit" is based on the investment's contribution to the level and nature of economic activity in Canada, including such factors as the extent of local participation, use of Canadian components, and the impact on Canadian technological development, industrial competition, and national and provincial economic and industrial policies. (C. Fred Bergsten, "Coming Investment Wars?" Foreign Affairs, October 1978, p. 135.

2/Members include the United Kingdom, France, Belgium, the Netherlands, Luxembourg, Italy, West Germany, Denmark, and Ireland.

US DIRECT INVESTMENT ABROAD,

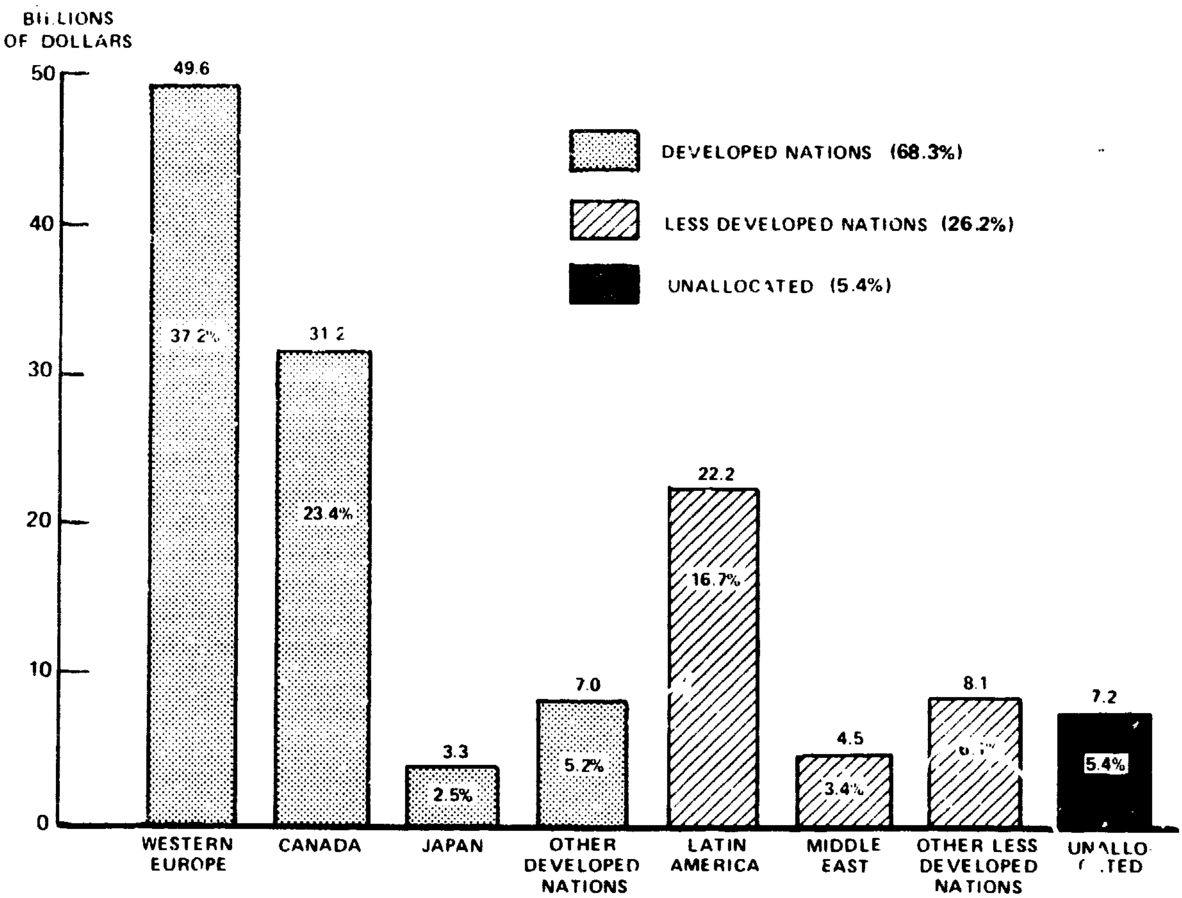

FIGURE 3 Statistics show that most US. foreign direct investment is concentrated in the developed nations of the world (Canada, Japan, and Western Europe). US. investment in less-developed nations is concentrated in Latin America. (Source: *International Economic Report of the President*, January 1977, p. 86. Data is cumulative for 1975.)

Japan, on the other hand, has been traditionally one of the world's most restrictive developed nations. However, recently, it has moved to liberalize, somewhat, regulations on foreign direct investment 1/ in response to U.S. initiatives. Previously, Japan limited most foreign investment to minority participation with Japanese firms in joint ventures.

The focal point for discussion among developed countries of MNC issues and national policies is the Organization for Economic Cooperation and Development (OECD) in Paris. 1/ In 1976 OECD, in the Declaration on International Investment and Multinational Enterprises, established a set of voluntary guidelines which the member governments "* * *jointly recommend to multinational enterprises operating in their territories * * *." Among other things, they urge multinational enterprises to publish more product and geographical information about their global operations; to avoid anticompetitive practices, to provide more information to national tax authorities; to improve labor relations by negotiating with employee groups in good faith; to endeavor to diffuse technology and to insure that their activities fit into the host countries' economic, scientific, and technological policies. Companies are also urged not to render any bribe to any public official and to abstain from any improper involvement in local political activities. In other sections of the Declaration, the countries themselves agree to cooperate in extending incentives and disincentives for MNC investment, to consult on the Guidelines' implementation, and to accord national treatment to foreign enterprises operating in their territory.

These initial OECD attempts at voluntary cooperation and regulation have not addressed some of the more difficult issues like foreign central control of local subsidiaries, and they have not been able to establish an effective machinery for consistent implementation or enforcement. However, there will probably be great pressure by Government, industry, and labor for compliance by individual companies even though the code is voluntary.

1/National Association of Manufacturers," U.S. Stake in World Trade and Investment, the Role of the Multinational Corporation," 1972, p. 64.

2/OECD members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

FREQUENTLY HEARD CRITICISM OF MNCS BY HOST NATIONS

Multinationals can:

- lead to a loss of cultural identity and traditions with the creation of new consumer tastes and demands;
- be used as channels for foreign (especially U.S.) political influence;
- possess a competitive advantage over local industries;
- create inflationary pressures;
- misapply host country resources;
- exploit host country wealth for the primary benefit of the citizens of other nations;
- lead to loss of control by hosts over their own economies;
- possess neither sufficient understanding nor concern for the local economy, labor conditions, and national security requirements;
- dominate key industries;
- divert local savings from investment by nationals; and
- restrict access to modern technology by centralizing research and development facilities in the home country and by employing home country nationals in key management positions.

Figure 4

DEVELOPING NATIONS AS HOSTS

Many of the same concerns of developed nations, such as France and Canada, can also be found in developing areas which have recently achieved independence, and in Latin America. (See fig. 4.) The developing nations are particularly concerned about the threat to their cultural identity, values, and traditions resulting from increased foreign direct investment. However, creating new tastes and demands is probably an inevitable result of changes in social patterns as a labor force becomes more employed and skilled, and has access to new products.

They fear home governments' use of multinationals as channels of excessive political influence and interference in their internal affairs, and they also are concerned about competitive advantages of large multinationals over their struggling local industries. A number of developing nations accuse MNCs of misapplying their natural resources, and exploiting their wealth for the primary benefit of the home nation's citizens. Multinational companies, on the other hand, claim to help provide host economies with higher productivity and employment, access to international markets, and an accumulation of foreign exchange. (See fig. 5.)

Host nations, especially those in the developing world, have also employed various tactics, either unilaterally or through regional groupings, to respond to perceived threats to their sovereignty or national interests by multinational corporations. According to a recent State Department publication, these tactics include

--outright expropriation of MNC subsidiaries or abrogation of valid contracts, sometimes without prompt, adequate, and effective compensation as required by international law;

--mandatory phased disinvestment;

--limitations on reinvestment of earnings and/or remittance of profits; and

--requirements that foreign investors fulfill quantitative goals concerning such matters as jobs, exports, or use of local materials in production. 1/

1/U.S. Department of State, "Multinational Corporations," (GIST), Washington, D.C., August 1976.

FREQUENTLY HEARD MNC CLAIMS OF BENEFIT FOR HOST NATIONS

Multinationals can:

- provide new products;
- introduce and develop new technical skills;
- introduce new managerial and organizational techniques;
- promote higher employment;
- yield higher productivity;
- provide greater access to international markets;
- provide for greater accumulation of foreign exchange;
- supplement foreign aid objectives and programs of home countries directed toward the host;
- serve as a point of contact for host country businessmen and officials in the home country;
- encourage the development of new ancillary, or spin-off industries;
- assume investment risks which might not have been undertaken by others;
- mobilize capital for productive purposes which might have gone to other, less fruitful uses.

Figure 5

Other tactics have included requirements for specific plant locations and demands for technology transfer. Many of these host countries require majority or complete local ownership of subsidiaries of foreign firms and a greater management role for host country citizens, partly to influence the subsidiary to act in the host's national interest.

In the UN, more than 100 developing nations known as the "Group of 77" are united on numerous issues relating to multinational corporations. They agree that the industrialized nations should provide capital, technology, and access to their markets on easier terms, and use governmental powers to pressure "their" MNCs to offer preferential terms for access to technology. The UN Centre on Transnational Corporations, established in 1975, provides direct technical assistance to developing nations on problems related to regulating or bargaining with MNCs. It has set up an information system on MNC operations, conducts studies and research on the effects of MNCs, and gives assistance to other UN agencies on MNC issues. The UN Commission on Transnational Corporations, composed of representatives from both developed and developing nations, is seeking to establish an international code of conduct for MNCs and governments, and to solve other problems related to foreign direct investment.

The less developed nations have also formed commodity-oriented organizations and regional economic unions, such as the Andean Common Market, through which to increase their collective power in dealing with industrialized nations and multinational corportions. 1/ The commodity-oriented Organization of Petroleum Exporting Countries, for example, played an important role in the crude oil price increases in 1973-74. According to a recent study by the Federal Energy Administration, Organization of Petroleum Exporting Countries member states seek to achieve numerous objectives through their leverage over the companies, including a desire to maximize government profit from crude oil production; use oil companies as a "buffer" between consumer

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1/Andean Common Market members are Venezuela, Colombia, Ecuador, Peru, and Bolivia. Chile was originally a member but has withdrawn.

THE HOST COUNTRY PERSPECTIVE

Host countries would like for MNC's to:

- Respect host country economic and development plans and strategies;
- Refrain from anticompetitive behavior;
- Cooperate in disclosure of information on local operations;
- Transfer technology to host country and conduct basic research and development locally where feasible;
- Reinvest profits in host country;
- Observe good labor relations practices;
- Hire and train local managers;
- Cooperate with local taxation authorities;
- Take into account balance of payments objectives and position of host nation by expanding exports;
- Contribute where possible to improving national infrastructure (e.g. education, transportation, communications,etc.);
- Respect host country laws, traditions, and culture;
- Respect national security requirements;
- Avoid improper involvement in local political activities;
- Avoid acting as agent or conduit for home country political or economic policies; and
- Respect host country enviroment and natural resources.

Figure 6

and certain producer governments; and extend national participation to refining, transportation, and marketing. 1/

HOST NATIONS AS BARGAINERS

These activities of both developed and less-developed host nations have significantly increased their bargaining positions with MNCs. The result has been to diminish the credibility of the argument that multinational corporations present a serious threat to their national sovereignty, particularly the freedom of action of those less-developed nations with scarce resources. Such nations have successfully nationalized local affiliates of multinational corporations on numerous occasions. Unlike national governments, MNCs cannot support a military establishment, enforce laws, or engage in various other activities of sovereign states. Multinationals, in many cases, have been required to make their strategies conform to political realities beyond their control. Most MNCs have shown tremendous flexibility in adjusting to whatever requirements are imposed upon them.

The bargaining power of host nations in dealing with multinational corporations is dependent, however, on combining numerous factors which include:

--The cooperation among competing companies.

--The coordination and cooperation among nations with similar resources (e.g., within the regional and commodity-oriented groups).

--The scarcity and demand for those resources.

--The information available to the host government concerning the MNCs assets and operations, and the host government's ability to use the information.

1/U.S. Federal Energy Administration, Office of International Energy Affairs, "The Relationship of Oil Companies and Foreign Governments," Washington, D.C., June 1975, p. vi. (Organization of Petroleum Exporting Countries members include Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.)

--The political and economic stability and strength of the host government.

--The political will and economic strength of the home government in responding to host country initiatives.

MNC STRATEGIES

Most host countries, developing and developed, have established a framework of policies to regulate investment by foreign-based multinationals. For their part, the multinational corporations can refuse to comply with excessive demands and withdraw operations, but such a response means much economic investment would probably be lost and political tensions might increase. They have used various other techniques to maintain profits and reduce negative impacts of home or host countries' regulations. These techniques range from manipulating transfer fees to shift the profits to countries with lower tax rates, to participating in joint ventures with local companies in the host countries. Multinationals can also engage in numerous political strategies to improve their bargaining position with a host government, including obtaining home government support and assistance and using their economic power to influence local politics through legitimate lobbying or illegal bribes and threats. The MNCs ultimate weapon, in certain cases, is to not enter a given country in the first place, particularly if the firm offers a unique technology or production capacity which the host government is seeking. However, there is virtually no data on such "no go" or "no further consideration" decisions.

CHAPTER 2

IMPLICATIONS OF MNC ACTIVITIES FOR U.S. FOREIGN RELATIONS: A FRAMEWORK FOR ANALYSIS

Because of the importance of the new and often controversial role that multinational corporations play in international affairs today, it is necessary for policymakers to understand how they operate and what their impact is for U.S. foreign policy. The size, influence, and widespread operations of U.S.-based MNCs mean that any U.S. legislation or regulations which affect them will have an impact, intentional or unintentional, on the host countries where they operate. An understanding and sensitivitity to these impacts is important for evaluating the effect and implementation of various types of legislation (foreign assistance, anti-trust, technology transfer and national security controls, tax and international economic policy, environmental regulations, etc.). It is also necessary, in many cases, to understand the role MNCs have played in certain host countries such as Canada, France, and Latin American nations to understand the context of important issues in those nations' relations with the United States.

Often, there is little, if anything, that can or should be done to eliminate or encourage a particular impact, but recognizing the impact itself improves the opportunity for more effective and realistic legislation and policies. It significantly increases the likelihood that U.S. foreign economic policy will be made with adequate consideration of important political realities.

Multinationals are a source of both conflict and cooperation in the international system. Although international conflicts related to MNCs are unlikely to result in armed hostilities, they can increase international tensions and suspicions which complicate agreement on a wide range of problems. Conflict is likely to occur when MNCs seek home country support against host country restrictions and expropriations, or when the home country uses the MNC as an instrument of its foreign policy, either intentionally or unintentionally. Such conflict occurs primarily because of the MNCs perceived threat to national sovereignty and to a nation's ability to control its own economy and development.

The impact of MNCs on foreign relations is often largely determined by what host country leaders believe about the companies' values and operations. Attitudes toward the United States are frequently conditioned by perceptions of the adverse effects of U.S.-based multinational corporations. Such hostile feelings may be transferred to the United States in general, even when the U.S. Government has given no diplomatic or other support to the firm. A widespread belief is that such ties exist, whether or not they actually do. According to the Conference Board survey,

> "in a country like Nigeria it is significant that leaders believe the typical American company there to be not merely an instrument of American governmental foreign policy but also an organization with close ties to the Central Intelligence Agency." 1/

From their perspective, however, U.S.-based MNCs sometimes bear the consequences of a broader anti-Americanism and reactions to official U.S. policies which they may have had no part in making. As a result, they may, at times, operate at a disadvantage because they cannot engage in activities which would be considered acceptable for other firms. 2/

Multinational corporations operate beyond the traditional boundaries of sovereign nation-state, yet they must coexist with these states and adjust to their rules and loyalties. There is little relevant international law which is applicable to governmental regulation of multinationals. MNCs have no widely accepted international rights. Their method for redress of grievances are local procedures in the host country and diplomatic protection of the home nation.

The problem of international legitimacy is illustrated by the fact that France and Britain have discriminated against subsidiaries of U.S. firms which invest there from other European Economic Community states. These subsidiaries are not considered Belgian, for example, even if the firms are chartered in Belgium and are bound by Belgian law. They

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1/Joseph LaPalombara and Stephen Blank, Multinational Corporation in Comparative Perspective (New York: The Conference Board, 1977), p. 13.

2/Ibid, p.

HOW MNC'S IMPACT US FOREIGN RELATIONS

- MNC's often implement US policies abroad (either voluntarily or involuntarily).

- They expect certain official support and protection, such as market information, trade promotion and support against discrimination or unfair expropriation.

- As independent actors, MNC's exercise economic influence and sometimes engage in environmental analysis, direct negotiations with governments, and questionable tactics to influence foreign governments.

- MNC's often serve as a catalyst for international cooperation by supporting regional integration and economics of scale, building infrastructure, and a working with governments to solve mutual problems.

- MNC's play a role in foreign policy formulation through their influence on public opinion and the passage of legislation.

- Activities of MNC's can enhance the national economic influence of both home and host nations by improving skill, technology, international distribution networks, and exports.

- The control of MNC's over strategic industries and skills, raw materials, and export of technology creates security concerns, but their supply and logistical capabilities, efficiency, and technical capabilities can be viewed as security assets.

Figure 7

are viewed rather as American because of U.S. control exercised over them. 1/

According to the State Department, the fundamental U.S. policy on international investment "is neither to promote nor discourage inward or outward investment through government intervention. We respect the right of each country to determine the climate in which foreign investment takes place within its borders, even though a liberal and stable investment climate clearly facilitates international flows of capital and technology." 2/ However, U.S. policy does seek to maintain a favorable climate for U.S. business around the world.

The impact of U.S.-based multinational corporations can be demonstrated by analyzing how their activities influence the conduct of U.S. foreign relations. The scope of MNC influence on U.S. foreign relations is frequently not appreciated. The following analysis seeks to demonstrate that scope and to help establish a framework for evaluating the potential impact of various types of U.S. legislation and policies on U.S. foreign relations through its application to U.S.-based MNCs. Such an analytical framework can also assist policymakers and legislators in evaluating how MNC activities can independently affect U.S. foreign policy in ways which they should recognize in carrying out their administrative, review, and oversight responsibilities for U.S. foreign policy.

IMPLEMENTATION AND SUPPORT FOR U.S. POLICIES ABROAD

Extraterritoriality

The United States has extended its jurisdiction through extraterritorial application of domestic laws relating to

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1/Jack N. Behrman, J.J. Boddewyn and Ashok Kapoor, International Business-Government Communications: U.S. Structures, Actors, and Issues (Lexington, Massachusetts: D.H. Heath and Company, 1975), p. 3.

2/U.S. Department of State, "Multinational Corporations," (GIST), Washington, D.C., August 1977.

antitrust, tax, national security, and other policies. 1/ The major purpose of the extraterritorial application of such legislation is not to use U.S.-based MNCs as a foreign policy tool, but rather to prevent them from frustrating U.S. laws and regulations through the activities of subsidiaries abroad. A result, however, is often the creation of new international tensions by the application of U.S. policies to companies operating in foreign nations. The laws apply to U.S. companies, whether they are selling directly overseas or indirectly through affiliates. However, U.S.-based MNCs with foreign subsidiaries are often more seriously affected by them because of their extensive international operations and conflicting obligations to comply with both home and host nations' laws.

U.S. antitrust laws prohibit competitors or potential competitors from engaging in activity which will adversely affect either foreign or domestic commerce. The Sherman Act of 1890, 15 U.S.C. 1 (1976), for instance, legislated the illegality of "every contract, combination * * * or conspiracy in restraint of trade or commerce among the several states, or with foreign nations." The Clayton Act of 1914, 15 U.S.C. 18 (1976), goes further and specifically prohibits U.S. enterprises from acquiring any company's stock or assets, the effect of which "may be substantially to lessen competition or to tend to create a monopoly." Other basic antitrust legislation relevant to MNCs includes the Federal Trade Commission Act of 1914, 15 U.S.C. 41 et seq. (1976), and the Webb-Pomerene Act of 1918, 15 U.S.C. 61 et seq. (1976). 2/

1/See, Moses L. Perry, Jr., "An Analysis of Some Legal Issues Surrounding the Regulation of United States Multinational Enterprises," (Washington, D.C.: Congressional Research Service, September 24, 1976).

2/The Federal Trade Commission Act of 1914, 15 U.S.C. 45(a) (1) (1976), prohibits "unfair methods of competition in commerce, and unfair or deceptive acts of practices * * *." The Webb-Pomerene Act of 1918, 15 U.S.C. 62 (1976), helps U.S. firms compete in foreign markets by legalizing associations entered into for the "sole purpose of engaging in export trade * * *, or an agreement made or act done in the course of export trade by such association," provided it does not restrain U.S. domestic commerce or the export trade of any competing U.S. firms.

The United States has also acted to apply U.S. foreign and national security policies by restricting trade and investment by U.S.-based MNCs. The 1917 Trading With the Enemy Act, 50 U.S.C. App. I et seq. (1970), which has been invoked against such nations as Cuba, North Korea, and the People's Republic of China, prohibits persons subject to U.S. jurisdiction, including U.S. citizens on multinationals' boards of directors, from engaging in commercial transactions with certain nations. The United States has also imposed international trade restrictions and arms boycotts precluding U.S.-based MNCs from doing business with nations subject to sanctions, such as the U.N. ban on trade with Rhodesia. The Export Administration Act, 50 U.S.C. App. 2401 et seq. (1970), is another example of extraterritorial legislation which gives the President authority to prohibit or curtail exporting strategic goods or technical data "to further the foreign policy of the United States and to aid in fulfilling its international responsibilities," and "to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States."

The United States applies these same restrictions when U.S. materials, technology, and data are reexported, even after an assembly or manufacturing process abroad. These restrictions become particularly controversial when the reexporting nation is seeking to expand trade with the forbidden market and disagrees about an item's strategic importance, or when non-U.S. components and material have been added to a manufacturing process.

Although the purpose of the antitrust laws is to prevent restraining trade, the effect of other extraterritorial legislation often appears to be a loss of potential revenue for U.S.-based MNCs and the U.S. economy for a more important political or military goal. However, it is questionable whether or not such restrictions as the Trading with the Enemy Act have achieved their stated purposes. Although a certain degree of U.S. technological superiority has probably been temporarily protected, in some cases, the laws may have forced greater dependence on the Soviet Union (e.g., Cuba), or helped strengthen self-reliance and national will. 1/

The diplomatic problems raised between the United States and host governments over the application of extra-territorial legislation places the MNC in a difficult intermediary position. An important unintended impact of this legislation for the United States is the creation of new irritants with friendly nations who view U.S. restrictions as interference in the affairs of a company which was incorporated under their own laws. A classic example is Fruehauf v. Massardy, 5 Int. Leg. Materials 476 (1966), in which a U.S. company's French subsidiary signed a contract with another French company (Berliet) to supply equipment for trucks which Berliet was exporting to the People's Republic of China. Using the authority of the Trading with the Enemy Act, the U.S. Government ordered the U.S. firm to force its subsidiary to break the contract. A French court ruling, however, freed the subsidiary from U.S. export controls and allowed the contract to be fulfilled.

1/ "In 1962, the U.S. banned all US trade with Cuba except for foodstuffs, medicines, and medical equipment needed for humanitarian reasons. We also prohibited foreign ships that traded with Cuba from landing at U.S. ports. These restrictions were modified in 1975 to permit business transactions between Cuba and US subsidiaries in third countries if those countries agreed. The U.S. ban on foreign shipping calling at Cuban ports was rescinded in June 1977, but U.S. ships still cannot trade at Cuban ports.

Before the trade embargo, two-way U.S.-Cuban trade totaled over $1 billion annually, and it has been estimated that we could sell $300 million worth of agricultural commodities, farm machinery, industrial equipment, and computer hardware to Cuba each year. The embargo will not be ended, however, until the claims of U.S. citizens and corporations for losses suffered through expropriation are resolved. About 5,900 of these claims, amounting to $1.8 billion, have been certified by the U.S. Foreign Claims Settlement Commission. We regard their settlement as essential to normalizing relations." (U.S. Department of State, "U.S.-Cuban Relations," (GIST), Washington, D.C., Mar. 1978.)

Numerous countries have enacted laws which limit the application of U.S. extraterritorial legislation to subsidiaries operating within their territory. For example, Belgium, France, Switzerland, and some Canadian provinces require official approval before business documents can be transmitted to a foreign government. 1/ This restriction could be especially sensitive in antitrust or tax cases.

Nations such as France and Canada, which are particularly sensitive to U.S. influence on their economies, view such interference as a challenge to their freedom of action in foreign policy. U.S. prohibition of exporting Canadian-made cars and trucks to Cuba and China during the 1960s helped create such perceptions. For France, applying such controls may have increased French suspicion of Atlantic ties and supported arguments for economic and military independence, especially after the United States refused to allow the sale of defense-related computer systems to France, even though U.S. subsidiaries controlled the industry. The sale was refused because the United States, as a signatory of the nuclear nonproliferation treaty would not allow the U.S. parent company to sell instruments to a subsidiary for use in operating a nuclear reactor not subject to the treaty's control.

There are other ways that U.S. laws force multinationals to have unintended impacts on foreign relations. For example, the Congress has legislated against U.S.-based firms complying with actions such as the Arab boycott against Israel. The purpose of this legislation was essentially to protect the U.S. firms' right to do business. But, a foreign policy impact was to provide support for Israel. It is unlikely, however, that the antiboycott law will greatly affect U.S. investment and trade with the Middle East, although some business may be lost. 2/

During the late 1960s, the United States sought to control the movement of capital between MNCs and their subsidiaries to improve the U.S. balance of payments

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1/Jack N. Behrman, "Conflicting Constraints on the Multinational Enterprise: Potential for Resolution," 1974, p. 19.

2/Bill Curry, "Anti-Boycott Law Unlikely to Affect Middle East Trade Greatly," Washington Post, January 18, 1978, p. C7.

position. Regulation attempted to reduce capital flows from U.S.-based companies to their foreign subsidiaries while increasing the flow of funds from subsidiaries to the U.S. parent. This action was intended to improve the domestic U.S. economy, but direct investments abroad were not seriously reduced because companies financed investment and expansion by raising local capital.

Voluntary support for U.S. policies

U.S.-based corporations have often cooperated and complied with U.S. Government officials' requests, even in cases where there are no legal obligations to do so. In 1954, for example, the State Department actively sought to encourage major oil companies to market Iranian oil after Mossadeq, whose earlier nationalizations had led to a boycott, was ousted from power. The international system for establishing and allocating airline landing rights has also facilitated their use for foreign policy purposes. Whether such support by MNCs is the result of national loyalty or simply mutual interests or some other business or consumer pressure, the effect has been, at times, to provide an instrument for executing U.S. policy. According to Jack N. Behrman, former Assistant Secretary of Commerce, executives of U.S.-based MNCs

> "* * * will generally comply with mere requests of high government officials, even when not backed up by statute, to prevent affiliates (even minority-owned) from undertaking transactions not consistent with U.S. policy."

The U.S. Government and U.S.-based MNCs sometimes cooperate in such mutually beneficial goals as encouraging international development by increasing foreign direct investment, although the United States has a general policy of neither actively promoting nor discouraging international investment. U.S. tariff codes, for example, have encouraged considerable economic development in Mexico along its border with the United States. Wholly-owned subsidiaries of U.S. firms can assemble products whose parts were originally manufactured in the United States and then return the assembled products to the parent company for sale in the United States. The United States then only levies a duty on the value added at the assembly stage. This provision of U.S. tariff codes and lower wage rates in Mexico attracted 500 U.S. firms employing 70,000 people by mid-1974. Since then, Mexico's Border Industrialization Program has suffered setbacks due to Mexican minimum wage increases, recession in the United States, and the U.S. Trade Act of 1974 which resulted in making cotton products assembled in Mexico count toward the allowable quota of Mexican cotton exports to the United States. 1/

Another important example of such cooperation is the Overseas Private Investment Corporation. It was established by the U.S. Government to encourage international development by insuring American investors against the risks of inconvertibility, expropriation, and war under the assumption that such private foreign investment benefits the interests of all concerned. 2/

Limitations on using MNCs for foreign policy purposes

When the United States does exert influence, even if unintended, through MNC activities, the affected host countries sometimes feel threatened because of U.S. political and economic power. However, the U.S. Government exerts relatively little influence over the total scope of activities of U.S.-based multinational corporations in comparison to the influence exerted by such nations as France and Japan over their enterprises.

1/Shelby D. Gerking and Michael J. Greenwood, "Illegal Aliens in the United States: Who Enjoys the Benefits and Who Bears the Costs?" Presented at the NSF-INS Belmont Conference on Illegal Aliens, May 1977, pp. 7-9.

2/According to a recent GAO report, however "*** OPIC's insurance portfolio continues to be concentrated in a limited number of countries ***" and, "*** further, due partially to the existing demand, OPIC continues to provide the majority of its insurance to the larger Fortune 500 corporations." U.S. General Accounting Office, Report to the Committee on Foreign Relations, United States Senate, "The Investment Insurance Program Managed by the Overseas Private Investment Corporation," Washington, D.C., July 26, 1977, p. v (ID-77-49). The recent renewal of OPIC's authority requires greater emphasis in its operations to the needs of the least developed of the developing countries, however.

According to a Commerce study, 1/

> "In Japan, the intervention of government in guiding and directing the economy is far more pronounced than in the United States. Japanese businessmen take it for granted that there will be a continuous dialogue between business leaders and government officials, and that neither will make major policy decisions or undertake major projects without consulting each other. Japanese business as a whole does not object to its government's active involvement in business matters. There is not the same adversary stance towards government that characterizes the general attitude of U.S. businessmen. Conditioned by cultural and historical influences, Japanese business accepts, though perhaps more reluctantly as time goes on, the government's leadership role."

When a large enterprise is state-owned or controlled, as are all Soviet MNCs and some Western European companies, using investments for foreign policy implementations is probably more likely.

Various factors greatly limit the U.S. Government's ability to influence the overseas operations of U.S.-based multinational enterprises. According to the Harvard Multinational Enterprise Project, these include

> "* * * the decentralized quality of U.S. governmental authority, the diversity of interests represented within the U.S. economy, and the complexity of U.S. interests in international affairs." 2/

1/Eugene J. Kaplan, "Japan, The Government-Business Relationship-A Guide for the American Businessman," (Washington, D.C.: U.S. Department of Commerce, 1972), p. iv.

2/Raymond Vernon, "A Decade of Studying Multinational Enterprises, Tenth Annual Progress Report, Multinational Enterprise Project, Calendar Year 1975" (Boston, Massachusetts: Harvard Business School, Division of Research, January 1976), pp. 11-12.

Other factors include the increasing importance of nationalism in host countries, the historical absence of a close relationship between Government and business in the United States, and the U.S. Government's desire to avoid being subject to counterpressures by foreign governments through U.S.-based MNCs.

EXPECTED SUPPORT AND PROTECTION

U.S. Embassies furnish a wide variety of market information and assistance, trade representation, and diplomatic support and protection for U.S. firms overseas. Although the United States does have a responsibility to protect the personal safety of U.S. citizens abroad, U.S. military intervention to protect commercial interests has become a thing of the past. During the first part of the twentieth century, however, the United States reacted with military force in numerous incidents to protect investments and markets, particularly in Latin America.

Investment information and assistance

Generally, U.S. policy is to show impartiality in situations involving competing U.S. companies abroad. As a result, U.S. support is often less than that provided by other industrialized nations. Home governments with a few large MNCs can provide support more easily than the United States can, with its larger variety of competitive firms and more complex policy interests. Japan, whose foreign policy is oriented largely toward securing foreign markets and access to raw materials, closely coordinates foreign direct investment by Japanese-based firms through its Ministry of International Trade and Industry. The Japanese make little differentiation between official government representation and commercial promotion and representation. In France, also, the government and business bureaucracies are tied closely together. According to Walter B. Wriston, chairman of the First National City Corporation,

> "To a European or to a Japanese, it is elemental that foreign trade is a country's lifeblood; it generates the revenue that sustains their governments. It appears obvious to them that foreign trade should inevitably be part of their foreign policy. It comes as a shock to Americans, however, to discover

foreign ambassadors in the United States helping to sell airplane engines, machine tools, or whatever their nationals need help in selling. * * *" 1/

Although U.S. support is usually more general and not tied to a specific company's interest or requirements, the United States does provide important market information and support. Such support can include briefings on a host country's political and economic situation, its current or proposed investment laws and policies, or introductions to key officials and businessmen in the host country. MNCs with little experience in a host country are more likel to take advantage of these services than companies with past market experience there. The Embassy is usually only one of several sources of information used by both new or experienced investors in their decisionmaking process, however.

Diplomatic support and protection

The United States seeks to keep fully informed, and sometimes becomes actively involved, in investment disputes. U.S. officials exercise "good offices" by encouraging the parties to negotiate a mutually satisfactory arrangement. More direct U.S. diplomatic intervention to support MNCs can be characterized by espousing a claim and by threatening to withhold aid or other support to governments which expropriate U.S. citizens' property without prompt, adequate, and effective compensation.

The United States becomes directly involved in investment disputes reluctantly, and usually only when absolutely necessary, if a confrontation threatens broader U.S. interests. The State Department has formally espoused some claims of U.S. nationals when all available legal and administrative remedies had been exhausted and resulted in a clear

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1/Walter B. Wriston, "The Multinational Company: New Weight in an Old Balance," Financial Executive, December 1973, p. 19.

denial of justice. 1/ Overall, however, State believes that routine, significant, and direct U.S. Government involvement in the merits of an investment dispute would have the following disadvantages:

--The interests of foreign investors could be disproportionately emphasized, but not necessarily furthered, at the expense of overall national interests.

--Flexibility in dealing with such disputes could be nullified by direct involvement.

--Involvement could dilute what leverage the United States might have toward deterring expropriation or encouraging compensation and thus, adversely affect the investor's interests.

--Involvement could result in governmental confrontation, especially in Latin America where the Calvo Doctrine is adhered to, thus resulting in undesirable politicization of the dispute. 2/

Official U.S. assistance is usually sought after other channels have been exhausted, including host-government administrative appeals and procedures, and contacts between the American Chamber of Commerce or other industry representatives and host government officials. U.S. firms might

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1/U.S. General Accounting Office, Report to the Congress, "Nationalizations and Expropriations of U.S. Direct Private Foreign Investment: Problems and Issues," Washington, D.C., May 20, 1977, p. 8 (ID-77-9).

2/U.S. General Accounting Office, Report to the Congress, "Nationalizations and Expropriations of U.S. Direct Private Foreign Investment: Problems and Issues," p. 7. (In the context of expropriations and investment disputes, the Calvo Doctrine means that aliens are entitled only to the rights of host country citizens in a court of law and are therefore not entitled to their home governments' protection. Their only legitimate procedural recourse is through host country administrative and judicial processes.)

seek U.S. Embassy assistance in cases where (1) they feel discriminated against by the host country's requirements on the company, (2) the host government has violated its contractual obligations, or (3) the host government has confiscated property or nationalized a firm without prompt and adequate compensation. If an investment is insured by OPIC, the company is required to inform the Embassy of contract violations.

Concern has been expressed in congressional testimony that the guarantees made to U.S. companies by OPIC may have the effect of identifying U.S.-based MNCs with U.S. foreign policy, and could increase the likelihood that the United States will become involved in controversies between the MNC and the host country. For example, in 1970 in Jamaica, the large OPIC insurance coverage of the aluminum industry's investment led the U.S. Ambassador to imply to a candidate for Prime Minister that the United States might intervene in the Jamaican elections if the industry's expropriation became a campaign issue. In congressional hearings, it was revealed that International Telephone and Telegraph argued the negative impact on OPIC of expropriations in Chile during its attempts to involve the Central Intelligence Agency in the Chilean Presidential election. 1/

According to a recent GAO investigation, however, no evidence was found

> "* * * of unreasonable OPIC or Government involvement or influence in the claims settlement process. In one example, OPIC avoided direct involvement with the foreign government until negotiations between the company and the government deteriorated to the point that OPIC's assistance was requested. OPIC's ability to mediate an agreement satisfactory to both parties, in this case, may have prevented a worsening situation

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1/U.S. Congress, Senate, "The Overseas Private Investment Corporation Amendments Act," 1974, p. 37 and American Assembly, Global Companies: the Political Economy of World Business (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1975), p. 62.

which could have led to greater U.S. Government involvement and diplomatic tension. * * *" 1/

Under the 1972 Gonzales Amendments, 22 U.S.C. 283r, 284j (1976), U.S. representatives to multilateral development banks, as the Inter-American Development Bank and the World Bank, are required to vote against any nation which has nationalized U.S. property without adequate and prompt compensation, violated contractual obligations, or otherwise discriminated against U.S. citizens or property with unfair taxes or other requirements. Since the amendment became law, unsatisfactory progress in settling U.S. expropriation disputes has led U.S. representatives to financial institutions to abstain from voting four times and to vote twice against loans to expropriating countries; however, the loan was approved despite the abstention or negative vote of the United States in each case. 2/

The 1962 Hickenlooper Amendment, 22 U.S.C. 2370(e)(1) (1976), to the 1961 Foreign Assistance Act sought to suspend U.S. foreign assistance to any country which expropriated U.S. property without adequate and prompt compensation, violated contracted obligations, or otherwise discriminated against U.S. citizens or property with unfair taxes or other requirements. 3/ It was openly invoked only once, against Ceylon (now Sri Lanka) in February 1963. Bilateral aid was suspended until July 1965, when it was determined that Ceylon had fulfilled its obligation to compensate the nationalized U.S. oil companies. The Hickenlooper Amendment itself was opposed by the State Department because, among other reasons, "it would give the appearance that the aid programs were motivated by

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1/U.S. General Accounting Office, "The Investment Insurance Program Managed By the Overseas Private Investment Corporation," Washington, D.C., July 26, 1977, p. vi (ID-77-49).

2/U.S. General Accounting Office, Report to the Congress, "Nationalizations and Expropriations of U.S. Direct Private Foreign Investment: Problems and Issues," Washington, D.C., May 20, 1977, p. 10 (ID-77-9).

3/This amendment should not be confused with another amendment offered by Senator Hickenlooper in 1964 relating to the Act of State Doctrine in United States courts, 22 U.S.C. 2370(e)(2) (1976).

a desire to protect US private investment * * *" 1/ The State Department argued that the national interest is best served by diplomatic flexibility which allows the "balancing of many factors." 2/

U.S. property has been expropriated in a number of countries under less than satisfactory conditions, as in Peru, where aid was never ended by the Hickenlooper Amendment. It was not implemented in Peru's case partly because of fear of retaliation against other U.S. firms in that host country and in other Latin American countries. 3/ A recent GAO report stated that:

> "According to one Assistant Secretary of State, aid to other countries had been held in abeyance on several other occasions after expropriations had occurred, pending clarification of the positions and intentions of those involved in the disputes." 4/

That report notes that there were some 260 known major disputes involving U.S. direct private foreign investment between January 1961 and the end of January 1975. 5/ The history of the Hickenlooper Amendment exemplifies the

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1/U.S. Congress, Senate Committee on Foreign Relations, "Hearings on Foreign Assistance Act of 1962," p. 558; Charles H. Lipson, "Corporate Preferences and Public Policies," World Politics, April 1976, p. 408; Janet Bancroft, "The Multinational Corporation: A Background Survey," Washington, D.C.: Congressional Research Service (72-224F), December 20, 1972, p. 11.

2/Lipson, "Corporate Preferences and Public Policies," p. 408.

3/Rieck B. Hannifin, "Expropriation by Peru of the International Petroleum Company," Washington, D.C.: Congressional Research Service, March 26, 1969, pp. 92-93.

4/U.S. General Accounting Office, Report to the Congress, "Nationalizations and Expropriations of U.S. Direct Private Foreign Investment: Problems and Issues," Washington, D.C., May 20, 1977, p. 10 (ID-77-9).

5/*Ibid.*, p. 2.

complexity of direct U.S. Government protection of private investment overseas. Since 1973, the President has been given authority to waive it.

The 1974 Trade Act, 19 U.S.C. 2101, 2461 (1976), which gave the President authority to provide developing countries duty-free treatment for certain articles under the "Generalized System of Preferences," also prohibits the extension of such privileges to countries which have nationalized, expropriated, or otherwise seized ownership or control of property owned by a U.S. citizen, or by a corporation partnership or association which is 50 percent or more beneficially owned by U.S. citizens. Effective nationalization, according to the law, can take place by nullifying an existing contract or agreement, imposing unfair taxes or other exactions, and imposing or enforcing restrictive maintenance or operating conditions. Under these conditions, the preferences can be extended only if the country has given prompt, adequate, and effective compensation, or has engaged in good faith negotiations or arbitration. Although several nations have received warnings that this provision of the act would be invoked against them and their duty-free privileges would be withdrawn, all disputes thus far have been settled without having to deny the privileges.

Disputes over compensation for expropriation of U.S.-based multinational investments continue to act as an important factor in creating international tensions. U.S. laws which have been applied extraterritorially probably have forced some restraint and cooperation when nationalizations occur. Yet, as Charles H. Lipson wrote in a recent article,

> "The current problem for multinational firms is that bilateral diplomacy has been unable to protect their equity investments in a broad array of recent conflicts, especially those with economically powerful nationalists. Neither the companies nor the U.S. Government have yet developed a coherent, effective response to this complex challenge. But most large multinational corporations now agree that the automatic application of sanctions would only automatically sever their future profits." 1/

1/Lipson, "Corporate Preference and Public Policies," p. 421.

MULTINATIONAL CORPORATIONS IN THE INTERNATIONAL SYSTEM

MNC'S SOMETIMES ACT AS AN INDEPENDENT FORCE IN THE INTERNATIONAL SYSTEM. THEY ARE BOUND BY THE REGULATIONS OF BOTH HOME AND HOST NATIONS, BUT THEY INTERACT DIRECTLY AND INDIRECTLY WITH NATIONS AND INTERNATIONAL ORGANIZATIONS

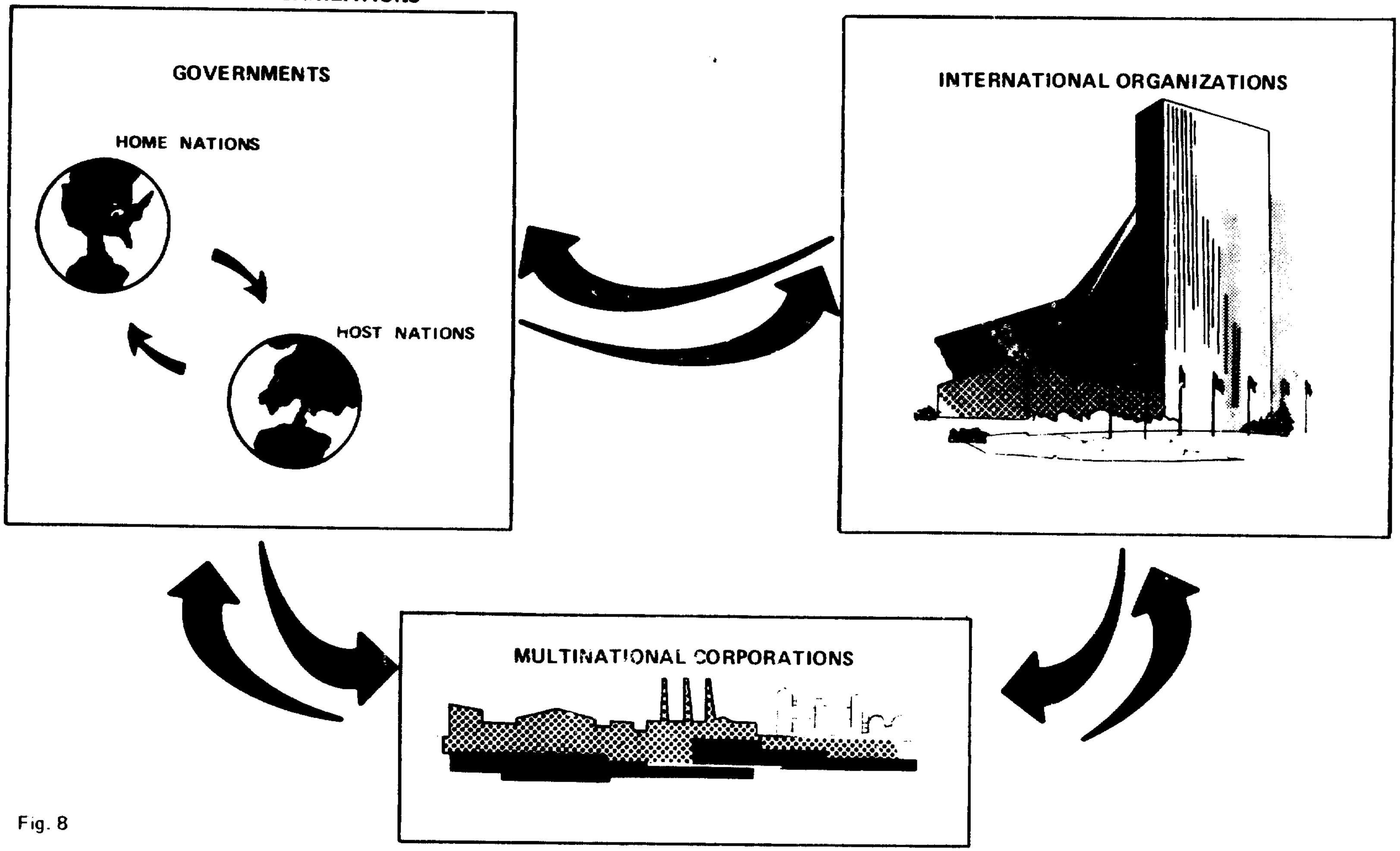

Fig. 8

RESPONSE AS INDEPENDENT ACTORS

Direct negotiations with governments

MNCs sometimes conduct direct negotiations with host country governments, with or without official U.S. knowledge and approval. These direct negotiations often involve issues which are clearly political. In December 1975, for example, the State Department urged Gulf Oil to suspend oil drilling operations in Angola and to refrain from paying $102 million in royalties and taxes to the *de facto* Angolan government. Later, the State Department admitted it had no legal authority to keep Gulf from negotiating with the Communist-backed Popular Movement for the Liberation of Angola (MPLA) government, and the initial objections were withdrawn. As a result, Gulf opened direct negotiations with the Angolan government even though U.S. recognition had not been granted to it. 1/

The Soviet Union often conducts negotiations directly with multinationals, and a group of U.S. businessmen recently visited Cuba for discussions with Prime Minister Castro while the reestablishment of diplomatic relations with the United States was being debated. Saudi Arabia and other oil-producing nations frequently meet with executives of the large petroleum companies to discuss price, supply, distribution, and other matters of vital concern to the U.S. Government.

Environmental analysis

Like nation-states, some large multinationals conduct various economic and political assessments of actual and potential market environments. MNC representatives are used to present their companies' viewpoints on pertinent issues to the national governments in whose countries they are stationed, and they seek to influence national decisionmakers in the direction desired by the corporation management. 2/

1/Don Oberdorfer, "Gulf Seeks Restart of Angola Drilling," *Washington Post*, February 21, 1976, pp. A1, 18.

2/Werner J. Feld, *Nongovernmental Forces and World Politics, A Study of Business, Labor, and Political Groups* (New York: Praeger, 1972) p. 59.

MNCs often possess valuable insights regarding policies, politics, and pending legislation in both home and host nations. According to a recent study by Stanford Research Institute, they sometimes provide the U.S. Government with such politico-military information and economic data on countries where they operate. 1/ U.S.-based oil companies, for instance, provide information to the U.S. Government which is necessary to develop a realistic national energy policy.

Though such information is gathered by MNCs and sometimes shared with the U.S. Government, the extent of the MNC's role in acquiring and disseminating information may be substantially less than often charged by MNC critics. As a recent Conference Board publication states, "the need to improve the multinational's ability to observe and analyze host-country environments is widely recognized by corporate managers. 2/

The confusion between sophisticated commercial analyses of a host country's society, politics, economic development, problems, etc., and covert intelligence activity, will probably continue to make businessmen wary of sharing too much information with the U.S. Government for fear of offending host country sensitivities. When the host country managers are local citizens, it is unlikely that the MNC will have much contact with the U.S. Embassy or play this consultative role to any great degree. Market seekers, in particular, are unlikely to develop such a relationship with the U.S. Government because of their ties to the host country, even though their information may be the most complete precisely because of those greater ties.

Questionable tactics to influence foreign governments

Multinational corporations have used controversial tactics to influence the policies and decisions of several

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1/N.R. Danielian, US Multinational Corporation and National Security Policy (Menlo Park, California: Stanford Research Institute, 1975), p. 22.

2/Joseph LaPalombara and Stephen Blank, Multinational Corporations in Comparative Perspective, p. xiii.

nations where subsidiaries operate or with whom they have sought to do business. The use of "questionable payments" or bribery to influence foreign government officials in Italy, the Netherlands, Japan, and elsewhere, to take specific actions has been well established in U.S. congressional testimony. 1/ One effect has been to contribute to internal political crises in the governments of several U.S. allies, and perhaps to contribute negatively to their military effectiveness since decisions for procurement may have been based on factors other than efficiency. International complications also arose, for example, when Japan requested information from the U.S. Government for use in criminal prosecutions for secret payments. In addition to diplomatic problems, a recent GAO publication, "Summary of Actions Being Taken In The United States to Control Questionable Corporate Payments in Foreign Countries," reported that

> "* * * these revelations have had a political impact in those other countries concerned, have diminished the international stature of multinational corporations, and have undermined confidence in public and private institutions of the Western World." 2/

Since the series of congressional hearings on multinationals in 1975, legislative restrictions have been enacted regarding illegal payments. It is too early to determine whether recent revelations and legislation will result in a long-term loss of business for U.S.-based firms because of a loss of faith and credibility in them, or because other firms may still be willing to make questionable payments. If so, the effect could be to reduce U.S. political influence often associated with such sales. However, U.S. technological superiority is likely to sustain U.S. competitiveness despite a refusal by U.S.-based firms to make bribes.

1/U.S. House of Representatives, Committee on International Relations, "The Activities of American Multinational Corporations Abroad, Hearings," Washington, D.C., 1975.

2/U.S. General Accounting Office, "Summary of Actions Being Taken In the United States to Control Questionable Corporate Payments in Foreign Countries," Washington, D.C., May 2, 1977, p. 1 (OP-77-1).

International Telephone and Telegraph's alleged role in opposing the Salvador Allende government in Chile is probably the best known case in which a U.S.-based MNC was charged with interfering in a host government's internal affairs. The effect of this case may have been to increase reticence for political involvement among MNC managers in general, and to strengthen the desire to lower, even further, their profiles as U.S. companies. According to the Assistant Secretary of State for Economic and Business Affairs:

> "* * * Developing country emphasis on the negative aspects of foreign investment and multinational enterprises was born in the era of ITT/Chile and fueled by the revelations regarding questionable payments by Lockheed. The result has been an effort in multilateral forums by developing countries to change the rules of the game under which international investment takes place. The only solution according to the developing countries is to legislate and restrict the conduct of multinational enterprises. * * *"

Even if the U.S. Government plays no role in such corporate activities, the perception is often that the firms are being used as tools of U.S. foreign policy, and the U.S. Government will frequently bear the burden of guilt by association. The price, in terms of U.S. image and influence, will be high. Such activities on the part of MNCs, however infrequent, also tend to increase the difficulties other firms may have in dealing with host country governments by creating a climate for more restrictions and nationalizations. These, in turn, are likely to bring increased requests for U.S. Government support and assistance from U.S. firms abroad.

Exercising economic influence

A study conducted for the International Trade Subcommittee of the Senate Finance Committee estimated that U.S.-based multinational firms and banks controlled the "lion's share," or $171 billion of the $268 billion in short-term liquid assets held by private international institutions in late 1971. 1/ Although these assets are not all liquid, the size of MNC financial wealth and operations automatically gives them great economic influence.

1/U.S. Senate Committee on Finance, "Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor Report to the Committee on Finance by the U.S. Tariff Commission," 93d Congress, 1st Session, Washington, D.C., 1973, pp. 531-546.

Multinationals can sometimes contribute to international financial crises by transferring only a small portion of their funds from one country to another. They have been accused of being largely responsible for the March 1973 monetary crises in which the dollar was devalued when speculators traded U.S. dollars for German marks and Japanese yen. According to the editors of Fortune, "they can shift profits from jurisdictions with high tax rates to those with low rates. They can borrow where interest rates are low and employ the funds where rates are high. And their worldwide operations provide them with invaluable intelligence on the strengths and weaknesses of national currencies-information that they can use to speculate in foreign exchange." 1/

MNCs argue that they can shift such funds when necessary, but they are not in the business of speculation. The intent of such currency shifts, they argue, is to protect assets already earned. Thus, their actions may accelerate a currency crisis but they do not cause it. They feel the U.S. Government should support more stable rates of exchange.

CATALYST FOR INTERNATIONAL COOPERATION

MNCs can foster international cooperation and development in several ways. Perhaps most importantly, they support regional economic integration and economies of scale. This is particularly true of the "efficiency seekers" who have helped achieve and benefited from the growing economic interdependence which has resulted from the formation of economic unions and the lowering of tariff barriers by the General Agreement on Tariffs and Trade. They have served as a vehicle for increased trade and responded to new market opportunities. Trade and investments create interests for home nations which generate restraint, not only in areas of trade policy, but also in times of diplomatic crisis.

Multinational corporations serve as a mechanism for East-West contacts and joint ventures, thereby perhaps contributing somewhat to a reduction of ideological hostilities and an interdependence of East-West economies by creating mutual economic interests. The Soviets are attracted by the discipline and centralization which MNCs exhibit and by the scale on which they can operate. In addition, multinationals may offer Eastern European nations a vehicle

1/"How The Multinationals Play the Money Game," Fortune, August 1973, p. 59.

THE MNC PERSPECTIVE

PUBLIC POLICIES CONDUCIVE TO IMPROVING THE MNC'S CONTRIBUTIONS TO HOST COUNTRY ECONOMIC AND SOCIAL GOALS

A. Intergrity of Agreements. Respect for all agreements undertaken or contracted with the Affiliate, regardless of the duration of such agreements and, when needed and appropriate, willingness to enter renegotiations in good faith, in order to provide for stable and equitable treatment of Affiliate operations essential to any long term investment that makes its proper contribution to the economy of the host country.

B. Equitable Treatment. Consistent legislative, regulatory, administrative and judicial policies toward Affiliates similar to those applied to nationally based companies, unless there are specific reasons for discrimination based on clearly defined national interest or security considerations.

C. Repatriation of Funds. Permitting the remittance of dividends, royalties and other fees, and to repatriate capital, with due respect to the plans, development policies, and particular situations prevailing in the host country at the time of such remittance.

D. Expropriation/Nationalization. A practice of prompt, adequate and effective compensation (with due regard to the current evaluation of assets), under international law, in instances where Affiliate operations and/or assets have been expropriated or nationalized.

E. Resolution of Investment Disputes. Acceptance of an investment dispute settlement mechanism involving either conciliation, mediation, or arbitration by a mutually agreed upon third party where an investment-related dispute arises between an Affiliate and the host country and where bilateral efforts to settle it remain unresolved. For member countries, this can most effectively be done under the auspices of the International Centre for the Settlement of Investment Disputes (ICSID).

F. International Resolution of Policy Conflicts. Certain policy conflicts between governments are beyond the efforts of one government, acting alone, to resolve. Therefore, all governments, including the U.S., should, through bilateral or multilateral negotiations, seek to reduce conflicts between national laws that impact upon Corporations and Affiliates and individual governments. Useful areas for negotiation are double taxation treaties and other taxation matters, antitrust, patent and technology transfers, export controls, environmental standards, government procurement practices, accounting procedures, and labelling standards. To this end, multinational corporations can benefit by cooperating with international and national organizations which are examining these issues and which are in the process of negotiating or are preparing to negotiate such agreements.

Source: Chamber of Commerce of the United States, "Elements of Global Business Conduct for Possible Inclusion in Individual Company Statements," Washington, D.C., January 1975.

Figure 9

for expressing their desire for, and perhaps realizing to some degree, greater independence from the Soviet Union.

In Third World nations, building infrastructure and providing jobs may promote long-term economic stability. 1/ Foreign investment by multinationals is an important source for transferring capital, technology, and management techniques to less developed economies. Such transfers may help, in the long run, to lessen social and economic differences in those nations and between the developed and less developed nations.

Finally, recent controversial activities of certain MNCs have served as a catalyst to bring together companies and nations which recognize the need to establish some form of international regulations and standards of conduct to protect and promote their respective interests. Such cooperation has achieved some progress in defining the responsibilities for both MNCs and governments. The issues have been discussed bilaterally and in such international organizations as the UN and the Organization for Economic Cooperation and Development. However, much remains to be accomplished in achieving both technical and political agreements between industrialized and developing nations.

ROLE IN FOREIGN POLICY FORMULATION

Although multinationals do not always agree among themselves on what U.S. foreign policy should be, they can significantly influence its content. This influence is exerted through their capacity to shape public opinion to support Government action favoring business interests abroad, and their direct influence on passing legislation. It sometimes involves support for host country objectives.

Influence on public opinion

Several years ago, the Congress rejected the Burke-Hartke bill, which would have imposed severe restrictions on U.S.-based multinationals. U.S. business interests mobilized to lobby in the Congress to defeat this legislation. Numerous

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1/Infrastructure is defined as the basic facilities, equipment, services, and installations needed for a country's growth and functioning.

business organizations exert such influence, including the Chamber of Commerce of the United States, the National Foreign Trade Council, the National Association of Manufacturers, etc. However, much lobbying is done directly by individual companies whose views often differ on particular issues. Participation in such organizations as the Council on Foreign Relations also serves as an influential forum for business to provide an input for policymaking. Examples in which MNCs appear to have exerted a significant influence on U.S. foreign policy include the negative U.S. attitude toward Egypt's Nasser, U.S. military intervention in the Lebanon crisis in 1958, and continued U.S. diplomatic recognition of the Republic of China (Taiwan). 1/

Conduits for special interests

Host countries sometimes benefit from MNC support which they receive in the United States. Examples of such support include serving as a point of contact in the United States for a host nation's businessmen and officials and lobbying efforts for favorable U.S. legislation and trade preferences.

The Council of the Americas, for example, seeks to expand private enterprise's role in Latin America. It does not officially engage in lobbying, but it does arrange meetings with Government and business leaders, conduct seminars and conferences, and publish a wide variety of information. The Council is interested in avoiding conflicts between the United States and Latin America to maintain a good investment climate. For example, on July 27, 1977, Council President Henry R. Geyelin testified before the Congress on behalf of a new Panama Canal treaty:

> "History has shown that unresolved political issues can generate a wide spread xenophobia which not only disrupts U.S. diplomatic relations, but creates an unfavorable trade and investment environment * * *. A responsible new arrangement designed in conjunction with Panama will signify to the Latin

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1/Louis Turner, Multinational Companies and the Third World (New York: Hill and Wang, 1973), pp. 40-41.

American nations a new level of U.S. political maturity and sincere intentions for cooperation with all nations." 1/

Corporate lobbying in the Congress has ranged from lobbying for larger quotas for Venezuelan oil to more liberal trade arrangements with the Soviet Union. Such lobbying often occurs without pressure from the host country governments, but there have been instances when host country pressure was important. Despite the frequent citation of Canada as victim of U.S. influence through MNCs, Joseph S. Nye's research showed that these multinationals were used as instruments by Canada as often as by the United States in the 1950s and 60s. 2/ According to Raymond Vernon, during the 1960s the Canadian government developed a strategy of promises and threats aimed at Canadian subsidiaries of U.S. auto companies to persuade them to lobby in the Congress to end restrictions on automobile trade between the United States and Canada. 3/ The 1973 oil embargo and the recent Arab embargo of companies which do business with Israel are other examples of host country pressure on MNCs for foreign policy purposes, in this case, the desire to economically isolate the state of Israel. In the 1960s, the Philippines threatened to nationalize U.S. firms unless the Congress granted trade preferences to that nation. 4/

MNCs have also been used, voluntarily and involuntarily, by various independent political groups to provide support

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1/John M. Goshko, "Drawing Battle Lines on the Canal Issue, Multinational Firms May Back Ratification," Washington Post, August 22, 1977, p. A4.

2/Joseph S. Nye, "Transnational Relations and Interstate Conflicts: An Emperical Analysis," International Organization, Autumn 1974.

3/Raymond Vernon, Storm Over the Multinationals, the Real Issues, p. 179.

4/J.N. Behrman, "The Multinational Enterprise and Nation States: the Shifting Balance of Power," in A. Kapoor and Phillip D. Grub (eds.), The Multinational Enterprise in Transition (Princeton, New Jersey, 1972), p. 420.

for a specific objective or grievance. In such nations as Argentina and Italy, terrorists have used multinationals as a valuable instrument for challenging a government's credibility and for acquiring publicity and funds through kidnappings and other violent acts against MNCs. 1/ In the United States, various nongovernmental religious and social action groups have pressured U.S.-based MNCs to either suspend operations or adopt policies to promote social welfare and equality in countries like South Africa, Chile, Rhodesia, and Uganda, where human rights have become an issue. Such pressures can, as in this case, support official U.S. policy.

ENHANCEMENT OF ECONOMIC INFLUENCE

Benefits for host nations

Many host governments have increased their international economic position, at least partly due to the existence and operation of MNCs within their borders. Some have used their influence over local subsidiaries of resource-seeker MNCs to increase export prices for such commodities as oil, bauxite, and bananas. Possessing the resource itself is the most important element, but without the MNC's cooperation, demand, and distribution system, such increases would be meaningless. Certainly the economic and political power of such oil-rich nations as Iran and Saudi Arabia has increased as a result. In another situation, the economic interests established in Taiwan have proven important in maintaining that nation's international viability.

For the world's lesser developed nations, multinationals can offer a method for achieving economic progress, since there is often a lack of indigenous capital and skills. For numerous intermediate powers such as Brazil, the multinationals play a very important role in economic planning. They contribute technology, financing, technical and managerial skills as well as international distribution networks which can

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1/In 1976, Owens-Illinois was expropriated in Venezuela in retaliation for acceding to terrorist demands to place antigovernment advertisements in various world newspapers. Owens-Illinois acted after the kidnapping of William F. Niehous, general manager of their Venezuelan operations.

greatly accelerate economic and industrial growth. For Brazil, in particular, economic development is an important requirement which must be satisfied before that nation's goal of great power status can be achieved.

Benefits for home nations

On the other hand, the fact that the United States is home to a large number of MNCs helps to give it a certain degree of economic influence and an important voice in international economic decisionmaking. Thus, the United States benefits from the commonly perceived identification of MNCs with their home nation. It also appears that multinationals may also increase exports for the parent government through sales to their affiliates, which reduces balance of payments deficits.

IMPACT ON NATIONAL SECURITY

A study conducted by the Institute for Strategic Studies in London concluded,

> "If there is any country that is entitled to harbour some doubts about the national security implications of multinational enterprises, it is the United States. The widening horizons of American enterprises, their increasing disposition to use remote overseas facilities for the manufacture of components and intermediate products, raise questions about the internal sufficiency of the American industrial complex." 1/

An independent, diversified industrial base has always been required for a strong national defense. Today, however, the multinational operations of numerous important U.S.-based industries complicate their role in national security. The threat is not so much from decisions made by multinational companies themselves, as from the nationalism and demands of host nations which exert increasing influence over them.

1/Raymond Vernon, Multinational Enterprise and National Security, p. 8.

The scope of operations of U.S.-based MNCs creates some legitimate concerns about the effects of their noncompliance with U.S. interests when those interests conflict with what seems best for the firm. Interference in the internal political and security affairs of other nations by U.S.-based multinational corporations can be detrimental to U.S. national security, and even the legitimate support given by U.S. MNCs for the foreign policies or war efforts of nations other than the United States, as in Angola, can bring these firms into conflict with U.S. interests. This latter problem was serious in Europe during periods of U.S. neutrality before World War II. The expansion of MNCs since then makes it potentially even more complicated today.

On the other hand, U.S.-based multinational corporations also can be viewed as an asset which, in times of crisis, will serve U.S. security interests. They may be able to provide the United States access to raw materials which might not be available otherwise, and they produce a wide variety of products with military value. They have also shown an ability to advance the state of the art in areas of technology with a military application. When the aggregate strength of potential U.S. allies in any large-scale anti-Communist conflict is considered, the total U.S. military capacity may actually have been strengthened by the foreign direct investment of U.S.-based MNCs. The central direction and organization which multinationals, especially the efficiency seekers, possess could be very important in any mobilization process related to a threat to the United States.

<u>Control over strategic industries</u>

Multinational corporations exercise considerable control over strategic industries. Many MNCs dominate high technology and capital intensive industries with significant national defense importance, such as computers, communications, petrochemicals, and electronics. However, there appears to be little hard data on the MNCs general effects on the U.S. defense production base. In 1971, Jack Behrman examined the multinationals' impact on the defense production base of Western Europe and found their contribution was not very important. 1/ According to a recent study by the Stanford Research Institute, much of the U.S. production base exported by multinationals is not defense related, such as consumer electronics (radio and television). 2/

Despite U.S. suspicions of offshore defense procurements, there are some examples of U.S. logistical reliance on foreign sources. For instance, components for the SMART bombs, used to achieve pinpoint accuracy on hard targets in North Vietnam, were manufactured in Japan. 3/ In terms of industrial supply, a significant number of semiconductors used in the U.S. electronics industry are imported from the Far East. However, in general, concerns over reliability, quality, uninterrupted supply, and U.S. control of strategic industries are issues which have slowed the acceptance of cooperative research and development efforts with other nations and overseas procurement.

Control over strategic skills and raw materials

Export of critical skills by U.S.-based multinational corporations to their subsidiaries abroad is an impact which has received little study or attention. The availability of critical raw materials, however, is certainly influenced by multinationals. MNCs are involved in the majority of international transactions for such important raw materials as oil, aluminum, zinc, nickel, etc. Those MNCs involved in extractive industries can play an important role in decisions on supply and price structure of raw materials. For example, in 1973, the Philippine subsidiary of Exxon refused to sell oil to the U.S. Navy at Subic Bay because of its enforcement of the Arab oil boycott against the United

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1/Jack N. Behrman, "Multinational Production Consortia: From the NATO Experience," (Washington, D.C.: U.S. Department of State, Intelligence and Research, External Research Study, 1971).

2/N.R. Danielian, "U.S. Multinational Corporations and National Security Policy," p. 4.

3/Colonel John G. Pappageorge, "Detente, National Security, and Multinational Corporations," (Carlisle Barracks, Pennsylvania: U.S. Army War College, 1975), p. 8.

States. 1/ During the Arab oil embargo, however, the United States and the Netherlands continued to receive shipments of petroleum from non-Arab sources due to the MNCs' diversification of supply. Even if future embargoes are unlikely, disruptions in supply may occur as a result of political or military conflicts in the area of production, or host country or MNC desires to reduce exports for purposes of conservation or increasing prices. 2/

Export of technology

Multinational corporations, particularly the efficiency seekers, are involved in transferring technology, sometimes, the critics charge, without adequately considering the consequences for national security. In a recent case, Commerce blocked a $13 million sale of the Cyber 76 computer to the Soviet Union and expressed the fear that adequate safeguards do not exist to prevent the equipment from being diverted to military or strategic uses. The system developed by Control Data Corporation is used in weather research and forecasting. 3/ Although this is a trade rather than an investment case, it does illustrate the difficulties in transactions involving advanced technology with nations who could use it in areas detrimental to U.S. security.

The 1971 Tariff Commission Study on Multinationals found that in most cases, however, the gains of technology transfer offset any losses, and that, as many host nations charge, MNCs do not export most of their advanced technology. However, this may change with increasing host country pressures. The 1975 Stanford Research study "U.S. Multinational Corporations and National Security Policy," concludes that there is not much evidence of "spillover" of business technology into the military area but suggest that additional

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1/Richard Barnet and Ronald E. Muller, Global Reach, the Power of the Multinational Corporations, p. 77.

2/U.S. General Accounting Office, Report to the Senate Committee on Commerce, Science, and Transportation, "Domestic Policy Issues Stemming From U.S. Direct Investment Abroad," Washington, D.C., January 16, 1978, p. 57 (ID-78-2).

3/James Hildreth, "Commerce Blocks Sale of Computer to Soviets," Washington Post, June 24, 1977, p. E10.

research is needed. 1/ Increasingly, it appears the United States could be the beneficiary of technology transfer. Any U.S. moves to restrict technology flows would probably lead to retaliation by other technology exporting countries.

1/N.R. Danielian, "U.S. Multinational Corporations and National Security Policy," pp. 16-17.

CHAPTER 3

MULTINATIONALS AND THE FUTURE:

ISSUES THE CONGRESS WILL FACE

Recent developments and trends give some indication of the future evolution of multinational corporations. Though all predictions are subject to error, looking ahead is useful because of MNCs existing and potential impacts, and congressional and executive agency responsibilities for oversight and regulation. The following developments appear likely and should be considered, both when analyzing proposals for future legislation and when evaluating the impact and effectiveness of current legislation and programs which deal with MNCs.

MNCs WILL ADAPT AND THRIVE

Most importantly, the multinational corporation as a form of international business enterprise is not in danger of extinction. The combination of reasons for foreign investment disucssed in chapter 1 will continue to encourage companies to operate multinationally, despite the problems. International interdependence in trade and resources, the continued growth of new technology (often with high per-unit Research and Development costs), and new consumer demands will provide necessary incentives. Multinationals have demonstrated their ability to adapt to whatever requirements are imposed by either their home or host governments. As a result of future demands, their form and methods of operation may require new flexibility for different environments. However, the multinational approach to marketing will survive and flourish. Joint ventures between U.S.-based MNCs and host country firms will probably become a more common investment strategy in the future.

INVESTMENTS WILL BE MORE SELECTIVE

Future foreign direct investment will be more selective than in recent years. Selectivity will result from (1) increased restrictions imposed by host governments on foreign investment; (2) the possible elimination of tax incentives by the United States on income earned abroad; (3) the decline in the relative cost advantages of foreign versus U.S. labor; and (4) such other uncertainties of investment abroad as currency devaluations and political instability. As the

IMPORTANT FUTURE TRENDS AND DEVELOPMENTS

- MNC s will adapt when required, and thrive.
- Investment will become more selective.
- Host country demands will increase international tensions.
- Greater collaboration between MNC s and hosts is likely.
- The number of home nations will grow.
- Mandatory international regulation of MNC s is unlikely.
- Application of new U.S. extraterritorial controls could create hostility.
- A future focus on maritime resources may increase international economic inequality.
- U.S. Government MNC relations will probably get worse before they get better.
- Restrictions on the international flow of data and communication will make MNC operations more difficult.

Figure 10

developed and the most rapidly developing nations acquire new domestic industrial capabilities, there will be fewer markets which will attract MNC investment as a result of increased competition.

HOST COUNTRY DEMANDS WILL INCREASE TENSIONS

Host countries' increasing efforts to obtain greater benefits for themselves from foreign direct investment will become the primary focus of the international debate over multinationals in the future. The most recent concerns, such as illegal payments, which have attracted considerable publicity, will seem much less important by comparison. Such efforts will create considerable public concern when strategic materials and resources, such as petrochemicals, are involved. The OPEC oil-producing nations, for example, seem determined to expand their participation in downstream refining, transportation, and marketing operations.

GREATER COLLABORATION BETWEEN MNCs AND HOSTS IS LIKELY

Recent activities by less-developed host nations have significantly increased their bargaining positions with the MNCs. As a result, some observers see a trend toward greater collaboration between MNCs and their host governments, and correspondingly greater distance between these companies and their home government. This trend is encouraged by the difficulties home governments, such as the United States, have in protecting foreign direct investments. Closer identification with host country governments will mean that multinationals will become an even poorer conduit for U.S. foreign policy than they have been. On the other hand, their impact on the conduct of U.S. foreign policy may increase, especially if host countries seek to exert influence on the United States through the MNCs.

THE NUMBER OF HOME NATIONS WILL GROW

The U.S. role, as home country to most of the world's multinationals, will change. Japan and nations in Europe and the developing world, such as India, Brazil, and Venezuela, will become the home government for an increasing number of multinational corporations. As a result, MNCs as a group will become less identified with the United States. More nations will also be able to appreciate the difficulties involved in being both home and host country to many multinational corporations.

MANDATORY INTERNATIONAL REGULATION IS UNLIKELY

It is unlikely that effective, mandatory international regulation of the activities of multinational corporations will be achieved in the foreseeable future. Establishing the machinery for enforcing such regulations will be extremely difficult. The various interests among the developed and the developing nations, and between the two, makes any meaningful agreement very doubtful. As a result, there will be increasing demands for national regulation to fill the gap.

NEW U.S. EXTRATERRITORIAL CONTROLS COULD CREATE HOSTILITY

Political pressures and business skepticism make it unlikely that the United States will expand application of either the Hickenlooper or Gonzales Amendments, or the Trading With the Enemy Act. However, new forms of U.S. extraterritorial legislation may create foreign policy problems in the future. Stricter U.S. laws which tax profits on income earned abroad could lead to conflicts with nations which may charge the United States with unfairly taxing subsidiaries doing business within their borders. Growing demands for international environmental regulation could lead to extraterritorial application of U.S. controls to U.S.-based multinational corporations operating abroad. Consumer labor, and human rights issues may also create pressure for new legislation which will regulate how U.S.-based MNCs operate abroad. The latter issue, in particular, would probably lead to charges that the United States is interfering in host nations' internal affairs. There has been growing interest in the Congress for human rights concerns in South Africa, for example, and several bills have been introduced which would establish new export restrictions for U.S. companies in South Africa. Such concerns were a part of recent OPIC legislation, and in the labor relations area, a proposed amendment to the Fair Labor Standards Act seeks to restrict importing goods not produced under certain labor standards.

FOCUS ON OCEANS COULD INCREASE ECONOMIC INEQUALITY

Multinational corporations may actually indirectly contribute to increasing gaps between developed nations and some Third World nations because of the recent focus on the seas and offshore resource recovery. With the development of new technology, resource extraction from oceans offer some protection for MNCs from an increasing number of restrictions and nationalizations. Only developed nations and large multinationals are likely to have the financial and technical capabilities to undertake such projects. The new wealth resulting from such development would go primarily to developed nations and MNCs which made initial investments.

U.S. GOVERNMENT-MNC RELATIONS ARE LIKELY TO GET WORSE

Relations between U.S.-based multinational corporations and the U.S. Government are likely to get worse before they get better. Increasing demands from host governments and new proposals for U.S. governmental regulation will frequently put the corporations in a difficult position. There is little evidence of change in the adversary position which often seems to exist between government and business in the United States. A lack of communication and trust exists despite the growing need for closer Government-business cooperation to solve such serious national needs as developing new energy sources. A bill currently before the Congress (S 1990) seeks to create a cabinet-level Department of International Trade and Investment which would establish better coordination within the Government for international economic policy.

DATA FLOW AND COMMUNICATIONS RESTRICTIONS WILL COMPLICATE MNC OPERATIONS

U.S.-based multinational corporations will find it increasingly difficult to operate across international borders, especially as efficiency seekers, as an indirect result of the increasing number of new foreign laws to restrict the flow of data. Most data protection laws seek to protect individual privacy but they can also be used to promote domestic economic interests by making it difficult, if not impossible, for foreign companies to do business in a country. These protective laws are being applied to all forms of international communication--computers and data files, television, films, magazines, satellite broadcasting, etc.

According to Senator George McGovern, Chairman of the Senate Foreign Relations Subcommittee on International Operations,

"* * * one way to 'attack' a nation such as the United States, which depends heavily on information and communications, is to restrain the flow of information--cutting off contact between headquarters and overseas branches of a multinational firm; taxing telecommunications crossing borders; building information walls around a nation." 1/

For example, Sweden's 1973 data law requires a new Data Inspection Board to approve any export of files or personal data. Similar laws have been passed in Belgium, France, and at the provincial level in Canada. They can be used as an important control to either encourage or restrict MNC investment by regulating what types of information a firm can transmit to its home office or to other affiliates. In the area of mass communications, Brazil has already proposed that 70 percent of all radio and television programs be domestically produced. According to Louis Joinet, France's Minister of Justice:

"Information is power and economic information is economic power. Information has an economic value, and the ability to store and process certain types of data may well give one country political and technological advantage over other countries. This, in turn, may lead to loss of national sovereignty through supranational data flow." 2/

The State Department has established a task force on "trans-border data flow" but, according to John Eger, former acting director of the White House Office of Telecommunications Policy, "there is still little awareness of the problem, and no national policy to meet it. Up to now, American responses have been fragmented and piecemeal." 3/

1/John M. Eger, "The Coming 'Information War,'" Washington Post, January 15, 1978, p. B2.

2/John M. Eger, "The Coming 'Information War,'" p. B2.

3/Ibid.

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APPENDIX I

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DEPARTMENT OF STATE

Washington, D.C. 20520

June 12, 1978

Mr. J. K. Fasick
Director
International Division
U.S. General Accounting Office
Washington, D. C.

Dear Mr. Fasick:

I am replying to your letter of May 8, 1978, which forwarded copies of the draft report: "U.S. Foreign Relations and Multinational Corporations: What's the Connection?".

The enclosed comments were prepared by the Assistant Secretary for Economic and Business Affairs.

We appreciate having had the opportunity to review and comment on the draft report. If I may be of further assistance, I trust you will let me know.

Sincerely,

D L Williamson

Daniel L. Williamson, Jr.
Deputy Assistant Secretary
for Budget and Finance

Enclosure: As stated

GAO DRAFT REPORT: "U.S. FOREIGN RELATIONS AND MULTINATIONAL CORPORATIONS: WHAT'S THE CONNECTION?"

We have reviewed the GAO draft report entitled "U.S. Foreign Relations and Multinational Corporations: What's the Connection?" and generally concur with its conclusions. We would like to make several suggestions regarding minor changes in the text, however. We believe these will clarify the report and increase its accuracy.

In the last paragraph on page 16 continuing on to page 17 the text confuses the various portions of the OECD Declaration by listing the incentives/disincentives and national treatment decisions as portions of the Guidelines. Each aspect of the Declaration (Guidelines for MNEs, National Treatment, International Investment Incentives/Disincentives, and Consultation Procedures) is a separate part of the document. The Guidelines are only one element of this package.

Paragraph 2 of page 21 identifies the U.N. Centre on Transnational Corporations (TNCs) as established to provide technical assistance to developing nations. This is not the only purpose of the Centre. Among its other duties the Centre has been requested to establish an information system on TNCs, to conduct research and surveys on the effects of transnationals, and to give assistance to the intergovernmental working group of the U.N. Commission which is elaborating a code of conduct relating to TNCs.

In the first paragraph of page 28 the Report implies that the voluntary Guidelines of the OECD were established to serve as a substitute or as an addition to international law. This was not the purpose of the OECD Declaration. The Guidelines set down voluntary standards for the activities of multinationals in the OECD Member Countries subscribing to them. These standards are recognized as consistent with preexisting international law and the international obligations of these states.

The last paragraph on page 35 refers to OPIC and the rationale for its creation. You may wish to add that under the recent renewal of its legislative authority OPIC is required to give greater emphasis in its operations to the needs of the least developed of the developing countries.

On page 38 under the section on "Diplomatic support and protection" the first full paragraph noting legislation in this area should be more clearly linked to mention later in the text on pages 40 and 41 of the Hickenlooper and Gonzales Amendments. The Report would be more complete in this section by a reference to the Trade Act of 1974. The Act provides for the revocation of the Generalized System of Preferences (GSP) extended to developing countries when they fail to take appropriate actions for prompt, adequate, and effective compensation of U.S. investors whose properties have been expropriated.

On page 43 we believe the first sentence in the first full paragraph beginning "Many of the roles ..." is too general and sweeping a statement and suggest it be omitted from final text.

On page 60 under the section on the "Export of technology" the report should note that the U.S. is increasingly the recipient of technology and that any moves to restrict technology flows would probably lead to retaliation by other technology exporting countries.

Julius L. Katz
Assistant Secretary for
Economic and Business Affairs

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